



# **China's Free Trade Agreement Strategy What lies beneath?**

**Leifur Sefton Sigurðsson**

**Lokaverkefni til MA-gráðu í alþjóðasamskiptum**

**Félagsvísindasvið  
Júní 2014**



**HÁSKÓLI ÍSLANDS**

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Lokaverkefni til MA-gráðu í alþjóðasamskiptum  
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Ritgerð þessi er lokaverkefni til MA-gráðu í alþjóðasamskiptum og er óheimilt að afrita ritgerðina á nokkurn hátt nema með leyfi rétthafa.

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## **Abstract**

The objective of this thesis is to better understand the primary political and economic considerations motivating China's relentless pursuit of free trade agreements (FTAs) since the early 2000s. It will examine the reasons behind China's initial drive for FTAs as well as the on-going considerations motivating its overall FTA strategy and its selection of free trade partners. These considerations motivating China's free trade will be grouped into geo-political, political/diplomatic, and economic considerations. A closer look will also be taken of China's FTAs with its first two Western free trade partners, New Zealand and Iceland, in order to better understand the factors motivating China's desire for closer economic integration with the West. Several international relations theories such as realism, mercantilism and liberalism will be utilized in order to assess how well they relate to China's actions on the international free trade scene, bringing to light the theoretical principles underlining China's free trade actions.

The thesis will close with a description of the various political and economic considerations that have influenced China's FTA strategy to date, and detail the importance of this knowledge in understanding China's past, present and future free trade actions and intentions. The thesis concludes that China's free trade behavior thus far has been one characterized by mostly open and liberal calculations, pointing to China's overall cooperative international free trade conduct.

## **Preface**

The reason for choosing this topic is due to my interest and knowledge in Chinese affairs, as well as my connection to New Zealand and Iceland, the first two Western countries China has chosen to establish free trade with. Being both Icelandic and a New Zealander, having spent nine and 19 years in each country respectively, I found it interesting that in recent years both states, although separated by huge geographical distance, have become the ‘testing’ grounds of China’s Western free trade strategy. Throughout my undergraduate degree, which I undertook at the Victoria University of Wellington, New Zealand, I placed much emphasis on learning about East Asian relations. I completed two courses relating directly to East Asian politics, and a further three history courses tied specifically to China. This academic interest combined with my position as a citizen of two states currently partaking in FTAs with China, ultimately led to my decision to further explore not only the reasons behind China’s closer economic association with the West, but also the motivations behind its overall FTA strategy, including those related to its own East Asian region.

This 30 ECTS thesis paper is the final stage in completing my masters of international relations at the Faculty of Political Science at the University of Iceland in the spring of 2014. The supervisor for this thesis is Silja Bára Ómarsdóttir adjunct lecturer at the University of Iceland. I would like to thank her for all the invaluable Skype sessions we have had over the past few months, as well as my girlfriend Guðrún for helping me format and for putting up with the long hours I have spent behind the computer screen.

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# **1. Introduction**

Since 2002 China has taken the unprecedented step of formulating free trade agreements with various countries and organizations of the world. This change in Chinese policy is important to the international system as it highlights a new focus for international trade and a shift from the multilateralism of the World Trade Organization (WTO) which China had strived so positively to become a part of. With China's newfound propensity towards FTAs, it has not only developed closer economic connections with the countries of its neighbouring East Asian region, it has also developed free trade ties throughout many corners of the globe ranging from Central Asia, the Pacific, South America, and Europe. With such a global outreach for economic partners by the world's largest exporting country and soon to be its most powerful economy, it begs the question as to why China is pursuing this new strategy of free trade. This thesis will look to answer this question by assessing not only the reasons behind China's initial push for free trade in the early 2000s, but also the overall motivations behind China's free trade strategy and the considerations it takes into account when selecting its free trade partners. The primary research question for this thesis is therefore, 'What are the primary political and economic considerations motivating China's FTA strategy and its selection of free trade partners'.

From a historical and modern perspective, China has typically kept to itself through isolationist and realist policies that have led to minimal contact with the outside world. Political turmoil within China throughout the 20th century worked to exacerbate these tendencies, with Mao Zedong's Cultural Revolution being the culmination of China's most isolated and backwards trading era. Today however, the change could not be more apparent. China has opened up its economy to the outside world in such a way that it has become the world's largest exporting state with the greatest stockpile of international reserves in modern history. China's development of free trade over the last decade also speaks volumes to its increasing economic confidence and on-going development, having signed FTAs with 12 partners, including three developed Western states, with the intention of signing many more. In order to give a fuller understanding of China's development from an isolationist and economically backwards state to the free trading economic powerhouse it is today, a secondary research question will be answered. This secondary question reads, 'What

important political and economic changes have taken place in China since the 1970s that have ultimately paved the way for such unhindered and increasingly liberalized free trade by China'. Free trade, as well as closer relations with the West are both prospects quite new to China. Embarking on a completely open economic system of free trade within a structure that is highly westernized is revolutionary. It is therefore important to examine the reasons behind China's sudden interest in free trade, and the motivations and considerations behind its free trade strategy and selection of partners. This understanding not only allows us to assess what China is hoping to achieve through its international free trade drive, but also helps explain how this growing economic giant will continue to rise and become intertwined with the global economic system, a development that is important to all of international relations.

The first section of this thesis will provide a background to China's historical trading practises in order to answer the secondary research question, and to set the scene in terms of how far China has come when taking into account its historically isolationist trading practises. This history will focus on China's trade with the West in order to emphasize just how unique China's current FTAs with Western states are, given the contentious relationship the sides have historically shared with one another. This relationship has not only seen the West exploit and unfairly dominate China for centuries through such events as the Opium Wars and their resulting concessions, but one which has seen China demonize and completely shut off the Western world through Mao Zedong's 20th century Cultural Revolution. This trade background will also bring to light the enormous change and reforms that have taken place in China since Deng Xiaoping's rise to power in the late 1970s, changes that will help explain China's newfound economic development and prowess. Following this historical background a theoretical section will highlight the main international relations theories in which this thesis will look to apply to China's international free trade. After the introduction of these theoretical perspectives and the succeeding chapters detailing methodology and the reasons behind China's growing free trade, the thesis will once again address these theories within chapter eight and apply them to what has been found. This theoretical summary will show that although China's economic policies and free trade actions have been influenced by certain mercantilist tendencies and realist calculations, its overall FTA strategy has been one ultimately characterized by cooperative and liberal calculations.

A section outlining the methodology of this thesis will follow the theoretical introductions. This section will explain the traditional approach used for data gathering and analysis that this thesis will follow, and introduces the methods that will be used in order to secure the highest level of validity, plausibility and reasoning throughout the thesis. Following these methodological explanations, a large section will be dedicated to exploring the political and economic calculations that have motivated China's search for new agreements and free trade partners. Attention will be given to the role in which the international trading system has had on China's interest in FTAs. This will include an analysis of the current deadlocks within the WTO that have made further trade liberalization extremely difficult to achieve and therefore the idea and implementation of FTAs more desirable. The section will then be split into segments that will assess the geo-political, political/diplomatic, and economic reasons behind China's FTA strategy. Much attention will be given to the geo-political aspects driving China's increase in FTAs as they have a large bearing on its strategic free trade choices. These geo-political factors include China's competition with Japan and the U.S for influence and leadership in the Asia-Pacific region, China's desire to be perceived as a friendly and peacefully rising power by its Asian neighbors, as well as its ambitions regarding the reunification of Taiwan and its role as an autonomous player in the region.

Other political and diplomatic factors influencing China's FTA strategy and its selection of partners will follow. This will include an examination of the political attachment China has placed on its FTAs regarding the acceptance of its market status economy, as well as the importance it places on how politically supportive potential free trade partners have been of Beijing and its policies. A look at the economic considerations behind China's FTA strategy will follow thereafter. This will take into account China's basic need for new and more diversified markets in order to feed its growing economy, as well as its desire to open its domestic market up to further competition and reform. Other economic factors will include China's search for natural resources and its need for economic agreements unhindered by its detrimental alignment with the policies of the G20 developing states within the WTO. Lastly, China's desire to form agreements with FTA 'hubs' will be assessed, taking into account the advantages China wishes to gain from entering into free trade with states that are already party to existing FTA networks.

Following these economic considerations, a section will be dedicated to describing some of the more general characteristics of China's free trade strategy. These general characteristics will give a wider overall perspective of the preferences informing China's FTA decisions. This section will detail the flexibility of China's free trade approach, its preference for small and economically advanced free trade partners, and the overall increasing sophistication and comprehensiveness of China's free trade commitments. Lastly, a closer look will be given to the first two FTAs China has signed with Western developed states, New Zealand and Iceland. In keeping with the Western focus established in the historical trade section, this analysis will seek to understand the motivations behind China's initial push into free trade with the developed Western world. The reasons behind China's interest in free trade with New Zealand will first be assessed, looking at the positive political and diplomatic ties the countries have shared over the past few decades. Special attention will be paid to New Zealand's role as the first country in the world to both accept China's accession to the WTO and its status as a full-fledged market economy. Other factors will also be examined, such as the complimentary economic trade structures both economies share, as well as the attractiveness of New Zealand's natural resources and its agricultural development and technological knowhow. New Zealand's role as a small, non-threatening and open economy will also be looked at in order to help explain China's choice in New Zealand as its first developed Western partner, as well as its role as an FTA hub in the Pacific region and its close relationship with Australia.

An assessment of the Sino-Icelandic FTA will then be undertaken in order to establish the motivations behind China's interest in closer economic ties with one of Europe's smallest economies. Again, sound political relations play their part in laying the foundations for closer economic cooperation, as well as Iceland's complimentary and non-threatening market structure. Other considerations behind China's interest in Iceland will be detailed, including its natural resources and geothermal capabilities, as well as larger considerations such as the role Iceland could play as China's 'side door' into the European economy and as a strong ally in the Arctic; a region China has increasingly become interested in due to its potential natural resources and shipping routes. Although this thesis seeks to understand the motivations behind China's interest in FTAs with various states and organizations, it must be understood that in

many cases these states and organizations were the ones to approach and seek out closer economic relations with China. The exact background as to which side sought out free trade first will however not be covered, instead an assessment will solely be made as to the motivations behind China's choice in entering into these FTAs.

The purpose of this study is to better understand the reasons behind China's free trade drive since the early 2000s, focusing on the both the political and economic considerations behind China's FTA strategy and its selection of partners. China's propensity for bilateral FTAs over the past decade is unique. It has never before embarked on such free trade liberalization, having only first joined the Western inspired domain of international FTAs in 2002. The motivations behind China's free trade strategy and the considerations it makes when selecting partners are important factors in understanding how this powerful, culturally unique, and traditionally isolationist state is approaching its economic expansion onto the world scene. By understanding these motivations a clearer perspective can be reached as to China's free trade intentions and the possible future direction it will take in regards to further international economic relationships and expansion. By assessing its preferences when choosing free trade partners, it is also possible to better explain the pattern of FTAs China has established to date, as well as provide somewhat of a blue print regarding the characteristics China finds attractive when choosing a state to conduct closer trade relations with; information that will become increasingly important considering China's increasing liberalizations and the attractiveness of its vast markets.

The contribution of this study to the field of international relations is that it will provide for new insights into the motivations behind China's growing free trade. Through careful examination of the literature available, an update will be provided to a topic that is very new and has not been greatly covered by academics, therefore avoiding the trap of simply repeating prior works. The thesis will look at both old and new FTAs and provide an in depth assessment of the reasons behind China's interest in its first two Western partners, New Zealand and Iceland. This assessment, coupled with an examination of the reasons behind China's interest in its current negotiating partners Norway, Australia, and the Gulf Cooperation Council (GCC), will provide for a very up to date analysis of China's FTA strategy and add to the overall literature

regarding FTAs within international political economy. Moreover, by giving greater attention to the FTAs China has reached with New Zealand and Iceland, a stronger understanding of what has enticed China to begin free trade with Western states can be provided. This understanding is especially interesting given the historically contentious trade relationship the two sides have shared and the growing attention China is currently giving to Western free trade relationships. This Western focused relationship can be evidenced by China's agreements with New Zealand, Iceland, and Switzerland, and its on-going negotiations with Norway and Australia.<sup>1</sup>

In order to give a fuller understanding of some of the material that is to follow it is important to clarify some key concepts that will be used throughout the thesis. This will help bring confusion and/or misunderstanding to a minimum. The concepts are as follows:

### *The West*

When the 'West' or the 'Western world' is being referred to it can often mean different things and include a different set of countries depending on who is being asked. The term has its origins with Western Europe and the political and social change, or modernization, that took place there after the middle ages; a modernization that was not as forthcoming in the rest of the world.<sup>2</sup> This Western European pattern of political and social change was imbedded in a number of other geographically distant states through immigration, which today are regarded as being a definitive part of the West. They include states such as the US, Canada, Australia and New Zealand.<sup>3</sup> To a large extent the countries of the West are also seen to share common values and culture, with democratic institutions and liberal economic practices being the norm. Moreover, these Western states are usually more economically advanced compared to the rest of the world. For the purposes of this thesis, the traditional term of the West that includes the countries of Western Europe, Canada, the US, Australia, and New Zealand, will be used throughout this thesis.

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<sup>1</sup>There is some uncertainty regarding the current stage of the Sino-Norwegian FTA negotiations since their suspension in 2010. This thesis will however assume they are on-going as evidenced by the following sources. Ministry of Commerce, PRC, "China FTA Network," <http://fta.mofcom.gov.cn/english/index.shtml>; Teddy Ng, "China-Norway Free Trade Talks Nearing Agreement," *South China Morning Post*, May 28, 2013.

<sup>2</sup>John H. Kautsky, "The Western Word and the Non-Western World," *The American Behavioural Scientist* 7, no. 8 (1964): 24.

<sup>3</sup>Kautsky, "The Western Word," 25.

### *Free Trade Agreement (FTA)*

A Free Trade Agreement (FTA), otherwise known as a Preferential Trade Agreement (PTA), is a contractual agreement between two or more countries that eliminates barriers and tariffs to trade in essentially all trade between them, thus giving partners preferential market access. Most modern FTAs go beyond the scope of goods to include guarantees on such things as intellectual property rights, foreign investments and customs cooperation, and must be completed in line with WTO regulations.<sup>4</sup> By eliminating barriers to trade, partners are able to further integrate their economies, thus allowing for increased export opportunities as well as a reduction in transaction costs that leads to a lowering of prices for consumers as well as a larger variety of product choices. FTAs can cover certain geographical areas where a number of countries are involved (Free Trade Area), or simply link two national economies through a bilateral arrangement. Today, the popularity of FTAs is on the rise, most countries of the world already have a number of FTAs concluded and are negotiating and/or seeking to establish new ones.

### *Asia*

When referring to Asia or the Asian region throughout this thesis, this term will include all those states of the East and Southeast Asian regions. This includes those states considered as being from East Asia such as China, South and North Korea, Japan, Taiwan, Macau, Mongolia and Hong Kong, as well as those considered to be from Southeast Asia such as Vietnam, Thailand, Singapore, the Philippines, Myanmar, Laos, Indonesia, Cambodia, East Timor, Brunei and Malaysia. If East or Southeast Asia is specifically referred to, it only includes those countries considered to be from those regions. In regards to referencing the Asia-Pacific, this includes all those states listed above, plus Australia, New Zealand, New Guinea and neighbouring Pacific islands.

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<sup>4</sup>Australian Government, "Free Trade Agreements," last modified February 27, 2013, <http://www.daff.gov.au/market-access-trade/fta#What>.

## 2. China's trade history

Before this thesis can outline its theoretical approach and begin the task of answering its primary research question, it is important to provide a historical background regarding China and trade with the world and the West. This background provides insights into the troublesome history China and the West have shared and shows how far China has come in terms of economic modernisation and integration. This history also brings the uniqueness of China's current free trade agreements with Western states into better perspective, considering previous eras of Western coercion and Chinese isolationism. Standing as the largest exporting state in the world, with its international trade increasing annually by 18% in the past two decades, China's rapid economic change and move towards free trade are made even more extraordinary given its troubled trade history.<sup>5</sup> Looking back it would have been hard to imagine that this traditionally isolationist and Confucian oriented state could have achieved such success in terms of economic opening and reform, and become one of the powerhouses of international trade and economic growth which it is today. The following section will answer the secondary research question introduced earlier in the introduction regarding the changes that have paved the way for the unhindered free trade we see in China today.

Throughout ancient China a feudal system of governance that emphasized complete isolation from the inferior outside world characterized Chinese life for over 2000 years. This feudal political structure that emphasized autocratic rule and promoted little exchange of commerce and culture beyond China's walls, remained relatively constant from the Qing Dynasty in 221 BCE through to the First Opium War with the West in 1840.<sup>6</sup> Throughout China's history trade was disadvantaged due to the principles inherent in Confucianism that saw the merchant (trader) as one of the lowest ranking members of Chinese society. The teachings of Confucius, a man believed to have lived from 551 to 479 BCE, strongly influenced Chinese society and continues to do so right up to the present day.<sup>7</sup> Confucianism expressly promotes education, the civil service and Chinese cultural superiority over wealth and material

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<sup>5</sup>Wolfgang Keller, Ben Li, and Carol H. Shiue, "Shanghai's Trade, China's Growth: Continuity, Recovery, and Change since the Opium Wars," *IMF Economic Review* 61, no. 2 (2013): 337.

<sup>6</sup>Daniel J. Morris, Lawrence P. Etkin, and Marilyn M. Helms, "China: The Bitter Roots of Foreign Trade through the Eyes of Asian Culture," *Competitiveness Review* 11, no. 2 (2001): 25.

<sup>7</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 25.

gains. It further states that people should accept and know their place in society and abide by such principles as filial piety (respect of parents, ancestors and higher authority), sincerity, propriety, righteousness and wisdom, to name a few.<sup>8</sup>

Although this Confucian way of life disadvantaged China's trade prospects there were still a number of countries and trade routes in which China was involved. The famous Silk Road that connected the Asian continent from East to West was the trade route most widely used by the Chinese. Dating as far back as 1,000 BCE and up until the 16<sup>th</sup> century, the Chinese traded with the Mediterranean, and inadvertently Europe, through the Silk Road in luxury items such as silk, spices and slaves.<sup>9</sup> The Han Dynasty dating from 206 BCE to 222 CE also recorded scores of trading activities between China and a number of foreign areas ranging from the Tibetan mountains, to provinces throughout Asia, as well as the Roman Empire.<sup>10</sup> From the fourth to sixth centuries, Chinese ships travelled as far as Thailand, Sri Lanka and India in search of trade and by the eighth century the Chinese province of Guangdong (Canton) had become the focal point for trade with the sea faring Arab merchants of the Persian Gulf.<sup>11</sup> Although the majority of China's foreign trade by the 11<sup>th</sup> and 12<sup>th</sup> centuries was conducted primarily with proximate Asian states such as Korea, Japan and the Philippines, by the early 1400s Chinese sailors commandeered trade missions that travelled as far west as Western Africa.<sup>12</sup>

When in the 15<sup>th</sup> and 16<sup>th</sup> centuries the costs of trading through the Silk Road increased due to the fall of the Mongol and rise of the Ottoman Empire, Europeans started to search for alternative sea bound routes in order to carry on trading with China in silk, spices and other goods.<sup>13</sup> Ultimately this resulted in the arrival of the first Europeans to China, the Portuguese in 1517, and the establishment of a Portuguese trading settlement in Macao in 1557.<sup>14</sup> Other European trading countries soon followed with the Spanish arriving in 1575, the Dutch in 1604 and the British in

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<sup>8</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 25.

<sup>9</sup>Wolfgang Keller, Ben Li, and Carol H. Shiue, "China's Foreign Trade: Perspectives From the Past 150 Years," *World Economy* 34, no. 6 (2011): 857, doi:10.1111/j.1467-9701.2011.01358.x.

<sup>10</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 25.

<sup>11</sup>Keller, Li, and Shiue, "China's foreign trade," 857.

<sup>12</sup>Keller, Li, and Shiue, "China's foreign trade," 857-58.

<sup>13</sup>Keller, Li, and Shiue, "China's foreign trade," 858.

<sup>14</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 26.

1637.<sup>15</sup> Over the next two centuries trade with Western states was for the most part restricted by various Chinese policies and undertaken as part of a tributary system that gave foreigners only a limited period of time to trade in China through specified traders and areas.<sup>16</sup> Trade with other more proximate Asian states however continued to be the mainstay of China's international trade throughout this period.

Trade relations between China and the West, most notably Britain, started to take a turn for the worse during the early period of the 19<sup>th</sup> century. The British East India Company, working as Britain's prime trade institution with China, had for years been flooding the country with illegal opium from Indian Bengal and Madras (Chennai).<sup>17</sup> The introduction of the opium trade to China had devastating effects on not only its growing trade deficits vis-à-vis the West, but also on its increasingly addicted population. Frustrated by the illegal opium trade, Chinese rulers demanded something be done. As a result, in 1839 a Chinese commissioner ordered the seizure and destruction of a large shipment of opium from one of China's ports, which in turn sparked the beginnings of the first Opium War from 1839-42.<sup>18</sup> The British, who were far superior militarily, quickly defeated the Chinese forces and seized control over a vast area of land including Hong Kong, Guangdong, Shanghai, and even threatened the capital Beijing.<sup>19</sup> What followed was the forced signing of the Treaty of Nanjing in 1842 that stipulated that China pay monetary compensation as a result of the Opium War. The treaty also saw the handing over of Hong Kong to the British Empire, as well as the introduction of new laws that allowed foreigners to take up residence and own property in treaty ports as well as be exempt from Chinese laws.<sup>20</sup> On the trade front, the treaty introduced a number of new trading ports for foreigners to take advantage of, and abolished the old tributary trading system by introducing favourable regulations and duties for foreign exports to China. Moreover, the treaty made no mention of opium thus implying that its trade was now legally allowed.<sup>21</sup>

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<sup>15</sup>Keller, Li, and Shiue, "China's foreign trade," 858.

<sup>16</sup>Keller, Li, and Shiue, "China's foreign trade," 858.

<sup>17</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 27.

<sup>18</sup>Keller, Li, and Shiue, "China's foreign trade," 859.

<sup>19</sup>Keller, Li, and Shiue, "China's foreign trade," 859.

<sup>20</sup>Robert Bickers, "The Challenger: Hugh Hamilton Lindsay and the Rise of British Asia 1832-1865," *Royal Historical Society (London)* 22, (2012): 152, doi:<http://dx.doi.org/10.1017/S0080440112000102>.

<sup>21</sup>Keller, Li, and Shiue, "China's foreign trade," 859.

Other Western states such as the US and France concluded similar exploitative treaties with China soon after, and to make matters worse the Second Opium War from 1856-60, in which China tried once again to stop the trade in opium, resulted in further sanctions and detrimental trade concessions for the Chinese including the opening of an additional 11 foreign trade ports.<sup>22</sup> This Western dominated trade continued right through to 1948 with the Chinese Maritime Customs Service (CMCS), which was established in 1854 and entirely dominated by foreign states, setting the tone in terms of tariffs, duties and revenue collection which greatly advantaged the Western countries.<sup>23</sup> The 20<sup>th</sup> century was more turbulent in terms of China's trade however, as nationalist movements such as the 1900 Boxer Uprising and Sun Yat-Sen's 1911 bourgeois democratic revolution began to change China's landscape.<sup>24</sup> Led by Chiang Kai-shek, China's republican period from 1912-37 saw a clawing back of powers from the CMCS and the outbreak of WWII saw trade and Western dominance over China begin to recede substantially. After the end of the Second World War and the victory of the Communist Party of China (CPC) over the nationalist Kuomintang (KMT) in 1949, Mao Zedong established the Communist People's Republic of China that ended foreign economic and political dominance over China once and for all.<sup>25</sup>

## **2.1 From Mao to WTO and beyond**

Trade with foreign states, as well as overall economic development in China suffered greatly under Mao's leadership from 1949-76. Trade was conducted through state owned foreign trade companies in a socialist command-economy structure that was geared towards import substitution and self-sufficiency.<sup>26</sup> Mao's first major reforms came through the Great Leap Forward from 1958-61 in which the CPC tried to transform China from an agrarian economy to a full-fledged Communist state through rapid industrialization and collectivization. The result of this 'leap forward' was catastrophic famine and disease that cost millions of lives.<sup>27</sup> Political and trade ties

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<sup>22</sup>Keller, Li, and Shiue, "China's foreign trade," 859.

<sup>23</sup>Keller, Li, and Shiue, "Shanghai's Trade, China's Growth," 339.

<sup>24</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 28.

<sup>25</sup>Keller, Li, and Shiue, "Shanghai's Trade, China's Growth," 344.

<sup>26</sup>Keller, Li, and Shiue, "China's foreign trade," 884.

<sup>27</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 29.

between China and the West became almost non-existent with the introduction of Mao's Cultural Revolution in 1966. The Cultural Revolution saw China cut all ties with the outside Western world and propagate isolationism, ethnocentric ideals and a demonization of the West and their capitalist systems. Books and theatres were destroyed, all forms of media or contact with the outside world were banned, and millions of people who were seen to be intellectuals, wealthy, or linked in any way to Western thinking were persecuted.<sup>28</sup> China's trade throughout this time diminished greatly from the 2% share of world trade it had before the Second World War, to 1.7% during the 1950s and 0.7% during the 1970s.<sup>29</sup>

After Mao's death in 1976 and a political struggle that saw the Chinese communist politician Deng Xiaoping take leadership of the CPC, things began to drastically change for China. After the disastrous previous decade of the Cultural Revolution, China needed to reform in order to fix its ailing economy and become more engaged with the world trading system. In 1978 Deng issued the famous 'Opening Up Policy', otherwise known as the 'Open Door Policy', that called for a number of important changes to China's economy. These included such changes as inviting foreign businesses to invest in China, implementing new aggressive export orientated trading policies in order to reverse trade deficits, and allowing the purchase and borrowing of foreign technologies in order to replace out-dated ones.<sup>30</sup> A number of institutions were also established under Xiaoping's leadership in order to increase trade and economic intercourse. These institutions included the General Administration for Foreign Exchange Control and the General Administration of Customs in 1979, the Ministry of Foreign Economic Relations and Trade in 1983, and the US-China Joint Commission on Commerce and Trade in 1983.<sup>31</sup> Other policies and laws that further encouraged China's new economic goals included the 1979 investment law allowing for joint ventures and foreign investment by overseas firms in China, and the higher and more favourable exchange rates introduced for export earnings which saw an increase of foreign trading corporations in China go from 14 to 1,000 by 1984.<sup>32</sup>

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<sup>28</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 29.

<sup>29</sup>Keller, Li, and Shiue, "China's foreign trade," 884.

<sup>30</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 30.

<sup>31</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 31.

<sup>32</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 31.

By the 1990s it was clear that China's Open Door Policy had brought with it huge economic success and an interest from the West in cementing China into the global economy through the WTO. Between 1985 and 1996 foreign investment in exports had risen from 1% to a staggering 40%, exports had surged from US\$5.1 billion in 1976 to US\$22.3 billion in 1997, and Gross Domestic Product (GDP) had skyrocketed from US\$148.8 billion in 1976 to US\$935 billion by 1997.<sup>33</sup> Due to the potential of this market the US and the European Union (EU) launched efforts to bring China into the WTO throughout the 1990s, and with the support of Chinese leaders who wished to use WTO admission in order to push further domestic reform, China entered the organization in 2001 after substantially reducing many of its barriers to trade.<sup>34</sup> Since WTO accession China has achieved astounding growth with its real GDP bolstering at around 10% annually with domestic foreign direct investment (FDI) and overseas exports skyrocketing.<sup>35</sup> China's deeper integration with the world economy and huge growth in FDI and exports since joining the WTO, has not only resulted in China becoming the largest exporting state in the world, but has also seen it build the largest trading surplus in modern history. With this newfound economic strength China has in recent years begun a new policy of deeper bilateral trade integration through FTAs with numerous countries and organizations of the world. With its modern economic prowess, China has grown more confident in recent years and is taking its own individual steps towards further economic integration. As the current stalemate in the WTO Doha round of negotiations shows no signs of resolving itself, it seems likely that China will continue to seek these individual economic agreements well into the future.

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<sup>33</sup>Morris, Etkin and Helms, "China: The Bitter Roots," 32.

<sup>34</sup>Aaditya Mattoo, and Arvind Subramanian, "China and the World Trading System," *World Economy* 35, no. 12 (2012): 1735, doi:10.1111/twec.12017.

<sup>35</sup>Chunlai Chen, *China's Integration with the Global Economy* (Cheltenham: Edward Elgar Pub, 2009), 2.

### 3. Theoretical approach

As in most academic disciplines a number of theories are used to explain and interpret phenomena in order to better understand, calculate and predict outcomes. Although the main theoretical camps of international relations often refer back to the ideas of ancient scholars and leaders to emphasize their depth and historical beginnings, the more modern construction of international relations theories can be attributed to the works of various scholars throughout the 19<sup>th</sup> and 20<sup>th</sup> centuries. The purpose of international relations theories is simply to better explain and predict various phenomena within international relations. Each theory is based on a set of key ideas and principles regarding such things as the nature of individuals, the conceptions of sovereignty and the international system, as well as the interactions between states and various actors.<sup>36</sup> The theories look to better explain and predict how global governance occurs and changes over time, and how it may look in the future, as well as explaining how and why certain power structures and interactions between various actors take place in the way they do. Although this thesis doesn't look to argue its points on the merit of certain theoretical views, or seek to prove or disprove the worthiness of various theoretical camps, it is important to give a thorough description of important theories which have influenced and help explain China's actions on the international scene. With such insights comes not only a better understanding of China's political and economic development, but also a firmer ground on which to make conclusions as to the reasons behind China's actions and growing FTAs across the globe. After the main theoretical frameworks have been explained, they will be visited again later in the thesis in order to assess how well they relate to the main findings, that is, whether China's FTA strategy can be considered to be influenced by one theoretical camp or the other.

The following section will outline three important international relations theories including realism, mercantilism, and liberalism. As the oldest and most widely used theory of international relations, realism will be introduced in order to bring to light the competitive and aggressive power politics that have shaped much of international politics over the past few centuries. It is important to assess how China

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<sup>36</sup>Margaret P. Karns, and Karen A. Mingst, *International Organizations: The politics and processes of Global Governance* (London: Lynne Rienner, 2010), 35.

has been influenced by realist principles, especially throughout Mao's Zedong's era, in order to better understand its behaviour on the international stage and the changes it has made towards more cooperative and liberal policies in recent years. The theory of mercantilism will also be introduced in order to explain the modern mercantilist leanings that have been linked to some of China's recent economic policies and trade behaviour. The uncooperative, self-interested and competitive nature of mercantilism's principles that dominated 15<sup>th</sup> to 18<sup>th</sup> century international economic policy, are today regarded as inefficient, out-dated and harmful to international trade. It is therefore important to understand how mercantilism relates to China's current economic behaviour, especially as it continues to expand its free trade strategy across the globe. Lastly, Liberalism, a fundamental theory of international relations that stands on the opposite spectrum to realism's principles, will be introduced in order to describe China's increasingly cooperative and liberal behaviour in recent years. China's liberal development since the 1970s explains not only its move away from the realist dominated policies of Mao's era, but also explains the increasingly open and liberalized international free trade strategy that we see in China today.

### **3.1 Realism**

One of the oldest and most widely used theories of international relations is that of realism. Dating back to ancient scholars and leaders such as Greek general and historian Thucydides, English philosopher Thomas Hobbes, and the Italian politician and scholar Niccolo Machiavelli, realism's ideas have dominated international politics throughout much of mankind's history.<sup>37</sup> It gained great theoretical and especially practical influence throughout the turbulent 20<sup>th</sup> century, a century that saw two World Wars, the Cold War and a number of other conflicts and revolutions erupt across the globe. When describing China's actions on the world stage most scholars would agree that it has in recent history conformed to a somewhat realist approach to international relations. It is therefore important to provide a description of realism's theoretical principles in order to better understand the influences behind China's actions on the world stage and the changes it has made since the late 20<sup>th</sup> century that

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<sup>37</sup>David Held and Anthony McGrew, *Governing Globalization: Power, Authority and Global Governance* (Cambridge: Polity Press, 2003), 237.

point to its gradual move away from hard-lined realism to include more liberal principles.

Realism's underlying assumptions are that actors, be they individuals or states, are egoistic, power hungry, and self-maximizing actors that try to gain at the expense of others.<sup>38</sup> Realism maintains that states are the primary units of analysis in the international system, and that they seek to increase their national interests through maximizing their relative power and security at the expense of others in rational ways.<sup>39</sup> Realists believe that the international system is characterized by anarchy and a lack of higher authority, and that states, due to this anarchy, can only rely on themselves to survive. In order to manage their insecurities within this anarchic system realists believe states must balance the power of others and use military deterrence in order to keep the international system as non-threatening and stable as possible.<sup>40</sup> Realists state that cooperation at the international level is limited due to problems arising from 'relative gains' and 'zero sum' games. These concepts refer to the idea that military and economic cooperation are hindered by the fact that if one state gains through cooperation, the other will lose out.<sup>41</sup> Furthermore, not knowing how the opposing side will act in the future creates distrust and results in states acting only in their own national interests.

In 1948 Hanz Morgenthau, the father of modern realism, produced a seminal text 'Politics Among Nations' that became the realist bible in the years following the Second World War. It influenced a number of policies in several countries throughout the 20<sup>th</sup> century, including famous US politicians such as George Kennan and Henry Kissinger who were known to follow a realist philosophy of foreign affairs.<sup>42</sup> Morgenthau's book affirmed and expanded on a number of realism's principles and provided for a more practical methodological approach for testing the theory within international politics. For Morgenthau, international politics revolved around the struggle for power, a struggle characterized generally by three important levels of analysis. These levels included firstly, the flawed nature of human beings as egoistic, power hungry, and self-maximizing individuals, secondly, the autonomous actions of

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<sup>38</sup>Karns and Mingst, *International Organizations*, 45-46.

<sup>39</sup>Karen A. Mingst, *Essentials of International Relations* (New York: Norton & Company, 2008), 63.

<sup>40</sup>Mingst, *Essentials of International Relations*, 63.

<sup>41</sup>Mingst, *Essentials of International Relations*, 67.

<sup>42</sup>Mingst, *Essentials of International Relations*, 65.

rational states locked in power struggles against one another, constantly looking to balance each other's power and looking to preserve their own national interests, and thirdly, the anarchic international systems lack of overriding authority resulting in a never ending struggle for security and power.<sup>43</sup> Morgenthau also emphasized the lack of authority, power and importance of international organizations such as Non-Governmental Organizations (NGOs), Intergovernmental Organizations (IGOs) and Multinational Corporations (MNCs). He believed international organizations to have no real effect on the international system as he believed them to be merely a reflection of the distribution of power between states and simply a sum of their parts (member states).<sup>44</sup> Moreover, because of the lack of higher authority, states could act unilaterally when it suited their interests without being held accountable and were able to leave international organizations when they so pleased.

Although realists would agree with many of the underlying principles and assumptions in which Morgenthau and earlier writers have espoused regarding the workings of international politics, there have been differences of opinion within the realist camp that have led to a branching out in terms of new theoretical assumptions. One example of such a difference in opinion is that between offensive and defensive realists. Defensive realists believe that states should act with restraint within the international system, whether it be through diplomatic, military or economic channels, and that through more moderate and restraining international policies, dangerous levels of mistrust between states can be in many cases avoided.<sup>45</sup> Offensive realists on the other hand argue that due to the anarchic structure of the international system states can never be sure of other's intentions and should therefore always look to improve their relative positions and power vis-à-vis other states, even through expansionist and provocative measures.<sup>46</sup> Although theorists often differed on key points such as those argued by offensive and defensive realists, no theory of international politics gained as much prominence and consolidation among realists as Kenneth Waltz's neorealism.

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<sup>43</sup>Hans J. Morgenthau, *Politics Among Nations* (5<sup>th</sup> ed. rev; New York: Knopf, 1978).

<sup>44</sup>Hans J. Morgenthau, *Politics Among Nations* (5<sup>th</sup> ed. rev; New York: Knopf, 1978), 237-245.

<sup>45</sup>John J. Mearsheimer, *The Tragedy of Great Power* (New York: Norton, 2001), 19-22.

<sup>46</sup>Mearsheimer, *The Tragedy of Great*, 19-22.

### 3.1.1 *Neorealism*

Neorealism or ‘structural realism’ as it is sometimes called, can largely be attributed to Kenneth Waltz’s famous 1979 text ‘Theory of International Politics’. Waltz’s focus was to reinterpret classical political realism in an attempt to make it a more scientific theory of international relations.<sup>47</sup> The primary difference between neorealism and the earlier classical form is the focus on the international system. Neorealism centres on the structure of the international system as the primary explanatory factor of international politics, rather than states themselves or the inherently flawed characteristics of human beings, as classical realism would. According to Waltz, the most important unit to study is that of the structure of a particular international system which he believed to be determined by a particular ordering principle, that is, the absence of a higher authority (anarchy) and a certain distribution of capabilities between various states.<sup>48</sup> Waltz believed these capabilities defined what position a state had within a given international structure, but that this structure, being a force that could constrain state actions on its own, was the primary unit that determined international outcomes, rather than the individual characteristics of states themselves.<sup>49</sup>

Similar to classical realism, neorealism places much importance on the balance of power principle, but differs in that it emphasizes the structure of the international system in determining the balance of power between states. The lack of importance given to the role of international organizations within international politics is also something neorealists share with their earlier counterparts. Well known neorealist John Mearsheimer believes international organizations to be simply an arena where power politics are given an avenue to play out, and that they have “minimal influence on state behaviour and thus hold little promise for promoting stability in the post-Cold War world.”<sup>50</sup> Neorealists also toe the same line as their classical counterparts when it comes to the likelihood for cooperation between states. Waltz summarises the bleak prospects of cooperation between states in his book

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<sup>47</sup>Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass: Addison Wesley, 1979).

<sup>48</sup>Kenneth N. Waltz, “Realist thought and Neorealist Theory,” in *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, ed. Charles W. Kegley, Jr. (New York: St Martin’s, 1995) 67-82.

<sup>49</sup>Waltz, “Realist thought,” 67-82.

<sup>50</sup>John J. Mearsheimer, “The False promise of International Institutions,” *International Security* 19, no. 3 (1994-95): 7.

‘Politics Among Nations’ where he mentions, “even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities”, and “one state may use its disproportionate gain to implement a policy intended to damage or destroy the other.”<sup>51</sup> The focus on relative gains and the unknown intentions of actors as well as the possibility for cheating to acquire disproportionate capabilities, are all important factors that hinder cooperation according to both classical and neorealists. The self-interested nature of states looking to protect their national interests makes the prospect of them taking advantage of each other all too likely, cooperation is therefore a difficult prospect, especially when to classical and neorealists alike, the survival of a state is determined by having more power relative to other states in the international system.<sup>52</sup>

### 3.1.2 *China and realism*

Since Deng Xiaoping’s revolutionary economic reforms beginning in the late 1970s it is clear to see that China has undergone major change and become an integral and important member of the global economic and trading community. What has made its transformation even more extraordinary is the fact that China under Mao’s leadership from 1949 exercised decades of isolationist realist policy geared towards minimal contact with the West. China’s period under Mao was further characterized by an intolerant ideology that saw little room for cooperation, as well as a protectionist style of economic state-building which focused on self-sufficiency and zero-sum thinking in regards to international trade. Although China today is still regarded by many to be a realist country employing somewhat state-centric protectionist economic policies, there is a clear difference between the style of realism it practises in the present day compared to that of Mao’s era. Looking at its modern economic integration and global diplomacy efforts it is clear that much has changed in regards to China’s foreign policy objectives; changes that point to a more liberal rather than realist style of international relations.

Two scholars in particular sum up this shift very neatly as a change from the ‘offensive realism’ of Mao’s era to the ‘defensive realism’ practised by China since

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<sup>51</sup>Waltz, *Theory of International Politics*, 105.

<sup>52</sup>Mearsheimer, “The False promise,” 5-49.

Deng Xiaoping's leadership. In their book 'China's ascent, Power, Security, and the Future of International Relations', Robert Ross and Zhu Feng describe China as ascribing to an offensive style of realism during Mao's rule. They explain this offensive realism as a state seeking to build security through decreasing the security of others. These offensive states threaten other's security intentionally due to the belief that the international system is solely based on conflict and that conflict is necessary in order to survive.<sup>53</sup> This zero-sum traditional realist thinking, which leaves little room for cooperation, fits well with Mao's style of leadership throughout the 20<sup>th</sup> century and especially the Cultural Revolution. During this time Mao espoused an intolerable ideology that called for the overthrow of so-called imperialist regimes throughout Asia and the world, and supported revolutions (along with the Soviet Union) and *coups d'états* within several states of the developing world.<sup>54</sup> Mao's worldview was influenced by hard lined Marxist beliefs that saw conflicts and armed struggle against capitalists and their proxies as necessary in order for socialism to ultimately triumph. Cooperation was therefore never high on China's agenda during Mao's reign.<sup>55</sup> Although China's realist nature under Mao's leadership was extreme, it cannot be forgotten that the world was embroiled in the Cold War battle between communism and economic liberalism throughout this time, and that this period in which realism reigned as the dominant theory of international relations saw many of the world's states influenced by its principles in one way or another.

After the appointment of Deng Xiaoping following Mao's death in 1978, Ross and Feng describe China as becoming a defensive rather than offensive realist state, that is, one that believes there is room for cooperation between states and that not all conflicts of interest are necessarily irreconcilable.<sup>56</sup> Although defensive realism certainly shares many of the same underlying principles as offensive realism such as the belief that the international system is anarchic and prone to conflict, defensive realism believes that states can at least overcome some of these obstacles and conflicts posed by anarchy through cooperation.<sup>57</sup> China under Deng Xiaoping's leadership certainly ascribed to this more defensive style of realism as evidenced by a

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<sup>53</sup>Robert S. Ross and Zhu Feng, *China's Ascent, Power, Security, and the Future of International Politics* (New York: Cornell University Press, 2008), 150.

<sup>54</sup>Ross and Feng, *China's Ascent*, 153.

<sup>55</sup>Ross and Feng, *China's Ascent*, 153.

<sup>56</sup>Ross and Feng, *China's Ascent*, 150.

<sup>57</sup>Ross and Feng, *China's Ascent*, 151.

number of China's actions throughout this time. These actions included toning down China's revolutionary rhetoric and drawing back its support for insurgencies, mending many of its relationships with its East and Southeast Asian neighbours, and joining a vast number of international institutions that pointed to China's willingness to cooperate and be constrained by others.<sup>58</sup> In terms of hard security, China also moved in this more cooperative direction by joining multilateral security forums and organizations such as ASEAN and the Shanghai Cooperation Organization (SCO). China's intention in joining these organizations was to promote a proactive and more peaceful direction towards establishing its security.<sup>59</sup>

It cannot be ignored however that China is still today an undemocratic authoritarian state with a far from satisfactory human rights record that still practises certain policies that are considered realist in nature. In security issues, commentators have noted that China has in recent years become more assertive and realist in nature, pointing to its lone support of North Korea, its ever increasing military modernisation and budget, as well as its growing influence and hostile actions in the South China Sea.<sup>60</sup> Throughout 2011 and 2012 China was seen to be the instigator of several altercations between itself and other countries laying claims to islands in the area, and states such as the US openly condemned China's actions calling for an end to Chinese aggression and a multilateral approach to solving the problems at hand.<sup>61</sup> Although hostilities have died down over the past two years in the South China Sea it is clear that realist power politics are very much at play in this area, and with China's increasing economic and military strength, some are concerned its rise to power may not be so peaceful. This concern can be evidenced by the US 2011 Asia 'Pivot' doctrine in which the Obama administration introduced a strategic shift away from the military rebalancing of the Western Hemisphere, over to Asia.<sup>62</sup> China's military actions, aside from skirmishes in the South China Sea and its suppression of the Tiananmen demonstrations, have however mostly been subdued, with commentators often paying more attention to its economic prowess and use of mercantilism, an old

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<sup>58</sup>Ross and Feng, *China's Ascent*, 154-55.

<sup>59</sup>Karns and Mingst, *International Organizations*, 266.

<sup>60</sup>Michael Auslin, "Realism on China is More Realistic," *The Wall Street Journal Asia*, Jan 07, 2011.

<sup>61</sup>U.S Senate Unanimously "Deplores" China's use of Force in South China Sea, Lanham: Federal Information & News Dispatch, Inc, *Congressional Documents and Publications*, June 27, 2011.

<sup>62</sup>Hillary Clinton, "America's Pacific Century," *Foreign Policy* 189, no. 11 (2011): 56-63.

form of economic policy that is attributed to traditional realist ideas of economic state building.

### **3.2 Mercantilism**

A theory that fits well into the realist ideas of self-interested power hungry state survival is that of mercantilism. As growing literature points to the use of a modern form of mercantilism in China today, it is important to introduce its concepts so as to better understand the policies at work behind China's rise to dominance in modern international trade. Mercantilism, a form of economic theory used chiefly throughout the 16<sup>th</sup> to 19<sup>th</sup> centuries, refers to the strong role in which the state plays in building up a country's national economic strength. Mercantilists believe that all economic activities should be subordinated to the goal of 'state-building' and that states are competing with each other in order to improve their respective economic standing.<sup>63</sup> For mercantilists, an economic gain for one state results in the economic loss for another; each country therefore tries to maximize its share of the international economic pie at the expense of others. Mercantilism stresses self-sufficiency rather than economic interdependence among countries, and sees states impose strong trade tariffs, as well as other limits on foreign imports and investments in order to gain economic advantages over one another.<sup>64</sup>

In its earliest and most basic form mercantilism revolved around 'bullionism', the stocking and acquiring of precious metals, notably gold, in order to increase state power. As international trade and colonisation began to grow in the 15<sup>th</sup> and 16<sup>th</sup> centuries, so too did conflict between the colonialist trading states of the European continent. The largest and most dominant European trading countries including Spain, Portugal, Holland, France, and Britain, fought a number of wars in order gain trading dominance throughout this period. For the mercantilists of the time, gold, silver and other precious metals that yielded the highest international trade value, were considered to be the main indicators of national wealth and power, as well as the

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<sup>63</sup>Karns & Mingst, *International Organizations*, 394-395.

<sup>64</sup>Karns & Mingst, *International Organizations*, 394-395.

primary commodity needed to raise and maintain armies ready for war.<sup>65</sup> In a period defined by conflict, the stocking of gold and other metals, or bullionism, was therefore a high priority. Mercantilists believed that in order to better acquire national wealth and power, the bullion stockpile, or ‘international reserves’, needed to be increased. This meant that precious metals needed to be accumulated and stock piled, and their exporting out of the country minimised in order to achieve advantageous balance of payments surpluses vis-à-vis other states.<sup>66</sup> In order to acquire and add to the national bullion stocks, mercantilists promoted the exports of raw materials overseas as they were largely bought with gold, and limited the import of similar goods for the same reasons. These goals saw the introduction of a number of state controlled duties, tariffs and subsidies in order to control the flow of certain commodities and provide incentives for exports. The role of the mercantilist state was therefore to protect domestic producers through protectionist regulations and the minimization of imports, and to implement policies that encouraged the flow of exports overseas, a system that was dominated by the state and revolved around zero-sum trade calculations.<sup>67</sup>

The eventual demise of the mercantilist ideals can be attributed to the economist Adam Smith’s famous 1776 book, ‘An inquiry into the Nature and Causes of the Wealth of Nations’. Smith sought to rebut the principles of mercantilism and propose a new ideal for economic prosperity through *laissez-faire*, economic trade and transactions free of government interference.<sup>68</sup> Smith argued that overarching government interventions, which mercantilists believed to be crucial to economic success, in fact harmed the free flow of capital and created monopolies that served only the interests of a select few to the detriment of the state and the masses.<sup>69</sup> Smith attacked the use of government tariffs and the hoarding of bullion, claiming that in the long run they only served to increase prices, hinder industrial expansion, and decrease overall efficiency. Instead, Smith promoted the notion of the ‘free hand of the market’ referring to the government free self-regulating behaviour of the international

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<sup>65</sup>Gianni Vaggi and Peter Groenewegen, *A Concise History of Economic Thought: From Mercantilism to Monetarism*, (London: Palgrave Macmillan, 2003), 16.

<sup>66</sup>Vaggi and Groenewegen, *A Concise History*, 17.

<sup>67</sup>Haley, B. F, "Heckscher, Mercantilism," *Quarterly Journal Of Economics* 50, no. 2 (1936): 348.

<sup>68</sup>Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. I, Book IV, A.S.Skinner, & R.H.Campbell, Eds, (Oxford: Clarendon Press, 1976).

<sup>69</sup>Smith, *An Inquiry into*, Book IV, Chapter ii.

marketplace. Smith believed this free hand would spread and induce wealth through competition between sellers and buyers, whilst at the same time creating a platform that would increase the quality of products worldwide and bring down their prices.<sup>70</sup>

### 3.2.1 *China and Modern Mercantilism*

There is no doubt that Smith's ideals for an open and free market have flourished since the late 18<sup>th</sup> century, especially considering the US drive to install an open and free international market through the Bretton Woods system after the devastations of WWII. Furthermore, the demise of the Soviet Union and communism in the late 20<sup>th</sup> century, the only other economic system challenging liberal ideals, has seen the triumph and cementing of Smith's liberal economic philosophies. Trade between states through mechanisms such as the WTO, as well as the complex financial and economic interdependence between them, have grown to unimaginable proportions in modern times. There has however been growing literature regarding the use of a modern form of mercantilism that is most often attributed to the economic policies of the countries of East Asia. This modern version of mercantilism, or neo-mercantilism, refers to the successful policies in which several states such as Japan, Taiwan and South Korea employed throughout the latter half of the 20<sup>th</sup> century, as well as China throughout the 1990s and 21<sup>st</sup> century. During the Cold War era most of these states experienced substantial economic growth through a number of policies which restricted imports in order to protect domestic producers, promoted exports in order to build trade surpluses with partners, and pegged currencies against the dollar at artificially low levels in order to achieve favourable balances of trade.<sup>71</sup> As these East Asian states built up their trade surpluses through these neo-mercantilist policies, they were able to achieve sustained growth over a long period of time without being subject to balance of payments constraints, a problem that plagued various other developing countries, notably in Latin America.<sup>72</sup>

Other commentators regard China and East Asia's successful growth as a result of what they call financial and monetary mercantilism. Joshua Aizerman and

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<sup>70</sup>Smith, *An Inquiry into*, Book I, Chapter vii.

<sup>71</sup>Paul Bowles, *Mercantilism*, (Princeton: Princeton University Press, 2009), 758.

<sup>72</sup>Bowles, *Mercantilism*, 758.

Jaewoo Lee explain the financial mercantilism of the East Asian region as being an economic strategy based on export promotion and credit subsidization. They explain this as the promotion of exports through preferential financing which results in the subsidization of investments within certain important exporting sectors. This strategy of financial support and subsidization according to Aizerman and Lee has been achieved through favourable state bank financing as well as financial repression, where favoured export-led sectors have enjoyed better terms in regards to external capital borrowing through political suasion.<sup>73</sup> This protection of domestic producers and promotion of exports through financial subsidisation can certainly be linked to the more classical form of mercantilism. Throughout mercantilism's influential period these same state actions were taken in order to protect and support domestic producers so that a strong exporting sector capable of building favourable balances of trade and a stockpiling of bullion could be established.

A notion very similar to the stockpiling of bullion is what Aizerman and Lee refer to as monetary mercantilism, or "hoarding international reserves as part of a deliberate development strategy which facilitates growth by maintaining an undervalued real exchange rate."<sup>74</sup> By hoarding international reserves states are able to make provisions for their financial instability whilst at the same time keeping a competitive and depreciated exchange rate. If other more substantial efforts such as bolstering the financial sector or structural reforms were employed in order to address financial instability, national currencies would strengthen resulting in less competitive exchange rates.<sup>75</sup> Although many East Asian states are guilty of such mercantilist policies, China, with the largest international reserves in modern history, is seen as the prime instigator. Many point to the fact that the Chinese Renminbi is grossly undervalued and therefore acts as a de facto import tariff and export subsidy, resulting in trade imbalances that greatly favour the Chinese.<sup>76</sup> The trade policy concessions that are therefore exchanged between China and its partners are seen to be nullified by China's undervalued currency. A survey of studies conducted in 2008 found that 17 of 18 studies concluded the Renminbi to be undervalued by at least 19% or more.<sup>77</sup>

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<sup>73</sup>Aizenman, Joshua and Jaewoo Lee. "Financial Versus Monetary Mercantilism: Long-Run View of Large International Reserves Hoarding." *The World Economy* 31, no. 5 (2008): 594.

<sup>74</sup>Aizenman and Lee, "Financial versus Monetary," 593.

<sup>75</sup>Aizenman and Lee, "Financial versus Monetary," 599.

<sup>76</sup>Mattoo and Subramanian, "China and the World," 1738.

<sup>77</sup>Mattoo and Subramanian, "China and the World," 1738.

China's major trading partners in recent years have also seen a substantial widening of the gap between imports from, and exports to China. In manufacturing alone, the EU and US have seen their trade deficits vis-à-vis China triple between 2001 and 2009, to US\$250 and US\$200 billion respectively; figures some commentators believe prove China's mercantilist successes in recent years.<sup>78</sup>

Today, one of the biggest problems associated with the Doha round of WTO negotiations is seen to be China's undervalued currency and trade dominance. A further liberalization of markets which would allow greater access for the Chinese and therefore greater opportunity for trade dominance, is a prospect that states don't seem willing to accept.<sup>79</sup> Although modern mercantilist policies are certainly not to blame for the failure of the Doha trade talks, they have had some influences, and in recent years states have opted for bilateral and regional trade agreements where they are better able to control the terms of trade themselves.<sup>80</sup> This increasing 'do it alone' trade mentality helps to explain why so many non-WTO trade agreements have been established worldwide in recent years. It also sheds some light as to why China is developing its own global FTA strategy.

### **3.3 Liberalism**

Even though China can be said to be employing certain mercantilist tactics on the world-trading scene, there is no ignoring the vast political changes and sheer number of reforms it has undertaken in order to become a more liberalized and interconnected member of the international community. As previously mentioned, China espoused an isolationist and realist ideology under Mao's leadership, and has since Deng Xiaoping, ascribed to a fundamentally more liberal style of diplomacy. It is therefore important to introduce liberalism, one of the foundational theories of international relations, which has since its beginnings run counter to realism's principles as an alternative and more cooperative theoretical perspective.

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<sup>78</sup>Mattoo and Subramanian, "China and the World," 1739.

<sup>79</sup>R. J. Samuelson, "Goodbye, Free Trade; Hello, Mercantilism." *Newsweek*, 151, no. 1, Jan 7, 2008, 80; Mattoo and Subramanian, "China and the World," 1738.

<sup>80</sup>Samuelson, "Goodbye Free Trade," 80.

Traditional liberalism advocates a number of principles that run directly opposite to its realist counterpart. These principles include the idea that human nature is essentially good and that social progress is achievable, that the primary unit for analysis is the individual rather than the state (although it is seen as most important collective actor), and that NGOs and international organizations are of considerable importance to international relations. Liberals believe that human behavior isn't inherently egoistic and that human interaction can be improved through institution building. Moreover, they believe that aggression, war and injustice are the result of misunderstandings among states and their leaders, as well as the result of deficient social institutions.<sup>81</sup> Liberals also assert that power relations and national interests are not fixed entities and that the international system is defined by laws, values, codes of conduct, and a variety of interactions and bargaining that shape and change state policies and interests.<sup>82</sup>

Liberalism's development can be traced back to a number of important individuals and periods in history. These include the writings of Dutch legal scholar Hugo Grotius in the late 16<sup>th</sup> and 17<sup>th</sup> centuries, the 18<sup>th</sup> century Enlightenment period, the 19<sup>th</sup> century development of economic and political liberalism, and Woodrow Wilson's 20<sup>th</sup> century idealism.<sup>83</sup> Hugo Grotius stated that international relations was subject to the rule of law, both the law of nature and of nations, and outright rejected the notion that states could do as they pleased by using war as a means to achieve what they saw fit. Instead Grotius believed states, just like people, were rational actors that abided by and followed laws.<sup>84</sup> The Enlightenment period added to these Grotian ideals by taking on the Greek notion of individuals as rational actors with the ability to improve their lives through the creation of a just society. The influential philosopher and liberal thinker Immanuel Kant argued that international anarchy did not necessarily result in a perpetual state of conflict as realists would posit, rather that it could be overcome through collective state action that would make the notion of war much less likely.<sup>85</sup>

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<sup>81</sup>Karns & Mingst, *International Organizations*, 35-36.

<sup>82</sup>Karns & Mingst, *International Organizations*, 37.

<sup>83</sup>Karns & Mingst, *International Organizations*, 36.

<sup>84</sup>Karns & Mingst, *International Organizations*, 36.

<sup>85</sup>Immanuel Kant, *Perpetual Peace*, ed. Lewis White beck (New York: Macmillan Co., 1957).

The 19<sup>th</sup> century saw liberalism developed even further by prominent theorists such as the aforementioned Adam Smith. Smith took 18<sup>th</sup> century rationalism and applied it in such a way as to promote democracy as well as free economic exchange between peoples and states. Smith promoted the free flow of trade and commerce without the overarching involvement of the state as he believed it would create interdependencies among states that would not only improve welfare and create optimal conditions for worldwide wealth creation, but also raise the costs of going to war.<sup>86</sup> After the development of this 19<sup>th</sup> century political and economic liberalism, the 20<sup>th</sup> century became highly influenced by US President Woodrow Wilson's idealism. Through the famous Fourteen Points of the Versailles Treaty ending WW1, and the Covenant of the League of Nations, Wilson promoted a system of cooperation between states through international institutions and believed that through collective security and the elimination of power politics, war could be altogether avoided.<sup>87</sup> The establishment and promotion of the League of Nations collective security system emphasizes the importance 20<sup>th</sup> century liberals placed on institutions as avenues for solving problems, and international law, courts and arbitration became important arenas promoted by liberals in order to solve international disputes.<sup>88</sup> These idealist liberal beliefs however came under intense scrutiny from realism as the League failed to prevent WWII and its associated atrocities.

### 3.3.1 *Neo Liberalism*

After the highly conflict prone 20<sup>th</sup> century and the dissolution felt towards liberalism's inability to address it, liberalism once again started to become influential towards the end of the 1970s. As awareness of the growing interdependence between states became more pronounced throughout the 1970s, a new strand of liberalism, known as neoliberalism or 'neoliberal institutionalism', looked to explain the reasons behind these new complexities. Robert Keohane and Joseph Nye's 1977 book, 'Power and Interdependence', had a profound impact on this new strand of liberalism and imbedded the neoliberal idea that international institutions were an integral factor in

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<sup>86</sup>Smith, *An Inquiry into*, Book IV.

<sup>87</sup>Mingst, *Essentials of International Relations*, 61.

<sup>88</sup>Mingst, *Essentials of International Relations*, 61.

addressing issues related to complex interdependencies.<sup>89</sup> Neoliberals promoted the idea that “even if the realists are correct in believing anarchy constrains the willingness of states to cooperate, states nevertheless can work together and can do so especially with the assistance of international institutions.”<sup>90</sup> Neoliberals therefore accepted the idea of states as primary rational actors in an anarchic world, but also believed that they had strong incentives to cooperate in international institutions as they could achieve absolute gains (gains for all) and solve collective problems.<sup>91</sup> Furthermore, neoliberals stressed the positive coordination and facilitating roles of international institutions. They believed they provided decision makers with quick access to information and made coordination between states more efficient by reducing the transaction costs of reaching agreements between large numbers of actors. Moreover, these institutions according to liberals guaranteed certain frameworks and monitoring mechanisms that set the tone in regards to behavior, therefore reducing the chances of cheating amongst members.<sup>92</sup>

Neoliberals explained and promoted this system of collective action and cooperation best through what they called the ‘Prisoner’s Dilemma’ game. The prisoner’s dilemma game involves two prisoners, each being interrogated separately for a crime, who are each being told that if they confess and the other doesn’t, they will go free whereas the other will receive a lengthy sentence. If both confess however they will get a slightly reduced sentence, but if they both keep quiet they will receive very short sentences due to a lack of evidence. Without knowing what the other will do, the prisoners will almost undoubtedly resort to self-interested behavior. The self-interested actions of the prisoners will however ultimately always lead to bad results for both, but if the situation can be repeated and communication between them put in place, both can benefit through cooperation and thus mutual gains. Neoliberals emphasize this same situation in regards to states in the international system. They believe that if states cooperate through institutions they are able to maximize absolute gains whilst minimizing the costly effects of self-interested actions.<sup>93</sup> Moreover, the

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<sup>89</sup>Robert O. Keohane and Joseph Nye, *Power and Interdependence*, (3d ed. New York: Longman, 2001).

<sup>90</sup>Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” *International Organization* 42, no. 3 (1988): 117.

<sup>91</sup>Karns & Mingst, *International Organizations*, 38.

<sup>92</sup>Karns & Mingst, *International Organizations*, 39.

<sup>93</sup>Mingst, *Essentials of International Relations*, 61-62.

fact that states will continuously encounter one another in the international system means that cheating or acting in self-interested ways at one point and time will be detrimental to future encounters with the same actors.

### 3.3.2 *China and Liberalism*

As has been outlined already, China's liberal development since Deng Xiaoping's economic reforms and 'Open Door Policy' has been extraordinary. The influence that neoliberalism's absolute gains and prisoner's dilemma principles have had on China's newfound international policies is clear to see. The number of international institutions China has joined as well as the growing role it has assumed in regional affairs such as within ASEAN and the SCO, points to its willingness not only to cooperate, but to be closely interconnected and in many ways constrained by the international system. Although it still retains some realist tendencies, it is hard to deny the fact that over the past few decades China has for the most part avoided military conflict and risen to become an economic super power in a fairly muted and benign way. Moreover, the Chinese leadership since the beginning of the 21<sup>st</sup> century has espoused an official policy of a 'peaceful rise' to power, sometimes known as the 'peaceful development' policy. Through this policy China has looked to assure other states that its global rise to power will be one characterized by peace through active and cooperative diplomacy.<sup>94</sup> Whether or not its rise continues to be defined by mostly peaceful means is yet to be fully realized, but for the time being China appears to be continuing with its task of building cooperative international relationships and improving its liberal economic development, as evidenced by its increasing formulation of FTAs across the globe.

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<sup>94</sup>Zhiqun Zhu, "China's 'peaceful rise' in the 21st century: Domestic and international conditions," *The China Journal* 58, (2007): 229.

## 4. Methodology

The main basis for collecting material for this thesis has been through such avenues as scholarly articles, journals, books, trade documents, reports, and several other online academic sources. The methodology of this thesis is therefore founded on what Chris Hart describes as a ‘traditional dissertation’, based on a general data analysis technique.<sup>95</sup> In the article ‘On Improving Qualitative Research in Public Administration Research’, important guidelines are given relating to the ‘plausibility, authenticity, and credibility’ of qualitative research which this thesis has looked to follow.<sup>96</sup> When collecting information from various sources, a practical approach has been taken as to its authority and authenticity. Questions such as ‘where and who has the data come from’, as well as, ‘what are their motivations for writing what they have’, have been kept in mind. In relation to the first question, I have made sure to use well-known academic journals and databases to gather my information. To be certain of the authenticity of texts I have chosen mostly peer-reviewed scholarly articles from such trusted sites as ProQuest, Ebscohost and Jstor. I have also made sure to choose books from authors that are established academics in their fields. By searching the number of academic works listed under each of their names I was better able to ascertain this. In order to understand and question the motivations behind each author’s work I have analyzed their nationality and the organizations they are associated with. This information allows me to better determine any bias that may characterize their views regarding China and its free trade strategy.

The initial information gathering for this thesis has involved a comprehensive review of the literature already available on the topic. As Hart describes in his book ‘Doing your Masters Dissertation’, there are five important questions that must be asked when reviewing the literature available. This thesis has looked to follow these questions. They are, ‘what research and theory is there on my topic’, ‘what are the key sources (books, articles, reports) on my topic’, ‘who are the main theorists and researchers in this area’, ‘what is the language of my topic and how is it used’, and

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<sup>95</sup>Chris Hart, *Doing your Masters Dissertation* (London: SAGE, 2005), 121.

<sup>96</sup>Ralph S. Brower, Mitchel Y. Abolafia and Jered B. Carr, “On Improving Qualitative Research in Public Administration Research,” *Administration & Society* 32, no. 4, (2000): 369, DOI: 10.1177/00953990022019470, 2000, p. 369.

‘what is the history and chronological development of the topic or problem’.<sup>97</sup> In order to attain the key sources, research and theory on my topic I have undertaken a comprehensive article search through several databases, scholarly journals and online search engines such as Google search and Google scholar. I have also undertaken an extensive examination of the relevant books available through avenues such as Amazon, Google books, and the Danish National Library. Establishing the history and chronological development of my topic has been mostly straight forward as China’s FTA strategy is very new. This has allowed me to track the history of China’s free trade activities from its initial Asian focus, to its expansion to the Asia-Pacific, South America and Europe, in a relatively uncomplicated way. I have also tried to incorporate the most relevant, high impact and up to date information available on the topic. This has included gathering works by Chinese authors that have been translated into English, and those that have been written in English by Chinese intellectuals. By examining this material I have been able to add a Chinese perspective to my research, thus adding to the comprehensiveness and overall understanding of China’s FTA motivations.

It has also been very important throughout this thesis to make certain the validity of the research has been sound and that a risk analysis be undertaken in order to bring to light any flaws inherent in the structure of the project. In terms of validity, I have used two of John W. Creswell’s verification tools for assessing validity. I have undertaken both a ‘peer review’ and looked to ‘clarify researcher bias’.<sup>98</sup> It has been important to work with my peers and supervisor in order to gain outside opinions regarding my research questions, structure, and overall validity. With their scrutiny and insights the project has more depth in terms of reasoning and plausibility. Furthermore, clarifying my research bias has also been very important so that readers and peers are aware of my past experiences and therefore the assumptions and biases that might impact my research project. This last point is very relevant for me as I have some prior education in Chinese affairs and am closely associated with the two case countries being examined, therefore pre-existing opinions could potentially impact conclusions in detrimental ways. I have looked to minimize any biases by being acutely aware of my own connections to the topic throughout each step of the thesis.

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<sup>97</sup>Hart, *Doing your Masters*, 155.

<sup>98</sup>John W. Creswell, *Qualitative enquiry and Research Design: Choosing Among Five Traditions* (London: SAGE, 2012), p 202.

This has meant proof reading drafts, finished copies and conclusions with the intention of making sure there are no unfounded or biased claims. Moreover, those peers that have helped with the proof reading of this thesis have been told of my connection to the material and have been asked to pay particular attention to any material that may seem biased or unfounded in nature.

## **Research Questions**

The research questions that this thesis answers are as follows:

### ***Primary research question***

- What are the primary political and economic considerations motivating China's FTA strategy and its selection of free trade partners?

### ***Secondary research question***

- What important political and economic changes have taken place in China since the 1970s that have ultimately paved the way for such unhindered and increasingly liberalized free trade by China?

To effectively answer this primary research question, it was first essential to answer the secondary research question within chapter two of this thesis titled 'China's Trade History'. This chapter provided an analysis of China's political and economic transformations since Deng Xiaoping and brought to light the extraordinary economic development and progress that has taken place in China since the 1970s. It is important to understand this background to China's economic development in order to fully grasp just how far China has come in regards to trade liberalization in recent years. Moreover, this trade history brings to light the uniqueness of China's current FTAs with Western states given the contentious trade relations the two sides have shared, and provides for a stronger foundation from which to evaluate the overall political and economic considerations motivating China's FTA strategy.

In order to answer the primary research question a thorough examination of the literature regarding China's FTA actions has been conducted. Two sections in

particular have been dedicated to exploring the main political considerations behind China's free trade strategy; they include the 'geo-political' and 'other political/diplomatic' considerations. These sections cover China's relationships and competition with the US and its neighbours in the Asian region, as well as other more general political and diplomatic considerations driving China's selection of free trade partners. A segment relating to the primary economic considerations driving China's free trade strategy is presented thereafter. This segment explores China's need for natural resources, its search for FTA 'hub' partners, and its overall desire for new markets and on-going liberalized trade through FTAs. The following section explores the political and economic considerations motivating China's free trade with its first two Western partners, New Zealand and Iceland. This section identifies the motivations influencing China's initial move into free trade with the Western world and provides further insights into China's overall political and economic free trade considerations.

## **5. Political and economic considerations motivating China's FTA strategy**

In little over a decade, China has concluded 12 FTAs with various states and regional institutions including ASEAN, Pakistan, Hong Kong, Macau, Chile, Taiwan, New Zealand, Singapore, Peru, Costa Rica, and more recently Iceland and Switzerland. China is also currently negotiating FTAs with the GCC, Australia and Norway.<sup>99</sup> This proliferation of FTA activity is not only increasing China's own trade liberalization and economic interdependencies, but is also spreading its economic reach and influence across many corners of the globe. Therefore, it is important to understand the reasons behind this recent FTA drive. Why has China pursued FTAs so relentlessly over the past decade and how does it go about selecting its FTA partners? Through a thorough examination of the literature available on the topic the following section will look to answer these questions. It is clear that the reasons behind China's FTAs are multifaceted and that political and economic considerations are strongly at play. Unlike other large trading states and organizations such as the US and the EU, China has no set FTA strategy, instead it implements a more flexible approach in regards to its selection of trading partners and the content included in each agreement. This flexibility does not, however, imply that there is a lack of strategic decision making behind China's FTA strategy, as with most states there are a number of strategic considerations at work, considerations that will be looked at more closely.

Before these specific considerations are taken into account however it is important to acknowledge the wider international trade problems that have set the scene for an economic landscape where bilateral and less complex FTAs have flourished as the successful way forward in terms of market access and trade liberalization. As has been previously mentioned, negotiations within the WTO have gained little ground over the past several years and show little signs of resolving themselves in the near future. Commentators have put these difficulties down to a number of reasons ranging from the differences in opinion between developed and less developed states, to the failure of the Doha Round in addressing the overall rise of China as a new international trade giant.<sup>100</sup> It is therefore not surprising that states

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<sup>99</sup>Ministry of Commerce, PRC, "China FTA Network," <http://fta.mofcom.gov.cn/english/index.shtml>.

<sup>100</sup>Mattoo and Subramanian, "China and the World," 1733-34.

have increasingly sought alternative ways to increase their trade and economic development through bilateral and regional FTAs. Through these bilateral and regional avenues there are smaller numbers of participants involved, which results in less complex negotiations and more likelihood for agreement. China, although late to the FTA scene compared with other developed states, is just one of the many following this resurgence in FTAs and has over the past decade been learning the rules of the game and growing increasingly confident in its international FTA strategy. The lack of progress within the international multilateral trade system is therefore an important driving force behind China's pursuit of new economic agreements and partners.

### **5.1 Geo-political reasons behind China's FTA strategy**

It is important to begin by addressing the motivations behind China's initial push for FTAs by looking at the geo-political considerations behind China's desire for closer economic integration in the Asian region at the beginning of the 21<sup>st</sup> century. By the early 2000s China had become wary of the large trade institutions it had joined such as the Asia-Pacific Economic Cooperation Forum (APEC) in 1991, and the WTO in 2001. China instead began to search for more effective ways to liberalize its trade and gain access to markets. The aforementioned slow pace of the complex multilateral negotiation structure of the WTO, as well as the subtle trade barriers that China's trade partners had already begun erecting therein, meant Chinese policy makers began to downgrade their reliance on the WTO early on.<sup>101</sup> China began to turn its attention to more regional based economic considerations that could not only bypass the slow pace of the WTO and give China more say in its own economic agreements, but would afford China a stronger political role as a leader within the Asian region. The Asian Financial Crises of the late 1990s and China's financial contribution to the stricken economies affected by it, also meant that not only did the countries of Southeast Asia wish to develop alternative trading arrangements to mitigate future economic shocks, China had also gained such political goodwill through its response

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<sup>101</sup>Stephen Hoadley and Jian Yang, "China's Cross Regional FTA Initiatives: Towards Comprehensive National Power," *Pacific Affairs* 80, no. 2 (2007): 330.

to the crises that it was in a strong position to develop and lead new economic agreements in the region.<sup>102</sup>

China's first FTA was signed in such regional circumstances with ASEAN in 2002, and FTAs with Hong Kong and Macau followed soon after in 2003. Although economic reasons played their part in China's pursuit of these FTAs, political considerations loomed much larger. As one Chinese commentator bluntly stated at the time, an enthusiastic FTA strategy will help China "enhance its influence in international political economy and expand its political and security space."<sup>103</sup> With China's economic power and size growing rapidly, and with its military modernization and historically ideological differences, many countries, especially in the Asian region, have feared China's rise to power. This fact, coupled with the influence of the US in the area and its somewhat coalition style encircling of China through Asian allies, meant China had a vested interest in rebutting the 'China threat' theory and assuring its neighbors of its peaceful rise.<sup>104</sup> Engaging them through FTAs was therefore a strategy that could bring about closer economic, political, and security relations whilst at the same time demonstrating China's responsible leadership in the region through the awarding of favorable trade concessions. As authors Jun Zhao and Timothy Webster stated, "China can build its regional leader image by its artful FTA strategy" and "China's diplomatic efforts to cultivate good relations with its neighbors are indivisible from its present strategy of entering FTAs with them."<sup>105</sup> China's wish to be perceived as a peaceful and cooperative partner by its Asian neighbors so that it could better take on a regional leadership role was therefore a strong geo-political motivation driving its pursuit of free trade with ASEAN and other neighbors.

In order to gain the favor of its neighbors and prove its peaceful rise China awarded its Asian FTA partners with considerable trade concessions. The best example of such concessions came by way of the 'Early Harvest Programs' implemented through the ASEAN and Pakistan FTAs. These programs saw China

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<sup>102</sup>Marc Lanteigne, "Northern Exposure: Cross-Regionalism and the China-Iceland Preferential Trade Negotiations," *The China Quarterly* 202, (2010): 365.

<sup>103</sup>Zhang Fan, "On the Construction of China's FTA Strategy," *China Opening Herald* no. 116 (2004): 75, quoted in Hoadley and Yang, "China's Cross-Regional FTA," 333.

<sup>104</sup>Kong Qingjiang, "China's Uncharted FTA Strategy," *Journal of World Trade* 40, no. 5 (2012): 1199.

<sup>105</sup>Jun Zhao and Timothy Webster, "Taking Stock: China's First Decade of Free Trade," *University of Pennsylvania Journal of International Law* 33, no. 1 (2011): 78, 87.

substantially lower tariffs on ASEAN and Pakistan's agricultural products without their need to reciprocate until years later. This demonstrated not only goodwill, but also the idea that China had their interests in mind.<sup>106</sup> In fact, commentators suggest that the China-ASEAN FTA was not at all economically beneficial to China, and that its primary purpose was to improve political and diplomatic relations with ASEAN as well as China's overall standing in the Asian region.<sup>107</sup> Similar concessions and political considerations lay behind China's FTAs with Hong Kong and Macau. As special administrative regions of China, the central government had a vested interest in showing added influence, goodwill and cooperation in its own backyard, especially in light of its aims to demonstrate its benign and cooperative leadership with states further afield. The agreements with Hong Kong and Macau were also good avenues for China to continue to learn and develop its FTA skills, as they shared the same language and cultural traditions as the Chinese mainland.

Another important geo-political factor influencing China's pursuit of FTAs with its neighbors, as well as states further afield, is its competition with East Asian rivals, notably Japan and the US. As one Chinese analyst commented in 2004, it had become a top priority for China to "break up the encirclement of Japan's FTA strategy."<sup>108</sup> Analysts posited that Japan had been striding ahead of China in building cooperative economic relationships with its neighbors and that this was having negative political implications for China's desire to become the regional leader.<sup>109</sup> Chinese leaders had also become acutely aware of the warming relations between Japan and the ASEAN states at the turn of the 21<sup>st</sup> century, and as one Chinese strategists put it, "as long as China is able to prevail over Japan in Southeast Asia and the Korean Peninsula, Japan will be in no position to compete with China in Asia as a whole."<sup>110</sup> The importance of relations with ASEAN has therefore been paramount in the race with Japan for regional influence. Scholars also point to this Sino-Japanese rivalry when determining the reasons behind Asia's spike in FTA agreements over the past several years. In John Ravenhill's 2010 article, 'The New East Asian

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<sup>106</sup>Zhao and Webster, "Taking Stock: China's First," 101.

<sup>107</sup>Qingjiang, "China's Uncharted FTA Strategy," 1199.

<sup>108</sup>Liu Changli, "The Causes and Characteristics of the Development of Bilateral Trade Liberalization in the World and China's Policy," *World Economic Studies* no. 4 (2005): 7, quoted in Hoadley and Yang, "China's Cross-Regional FTA," 333.

<sup>109</sup>Hoadley and Yang, "China's Cross-Regional FTA," 333-34.

<sup>110</sup>Jin Xide, "China's Situation After 9/11: Changes and Continuity," *World Knowledge* no. 1 (2002): 39-40, quoted in Hoadley and Yang, "China's Cross-Regional FTA," 334.

Regionalism: A Political Domino Effect', he argues that the increase in FTA activity in East Asia is not down to solely economic reasons, but rather political ones, where states are acting out of fear of being excluded from new regional trade structures.<sup>111</sup> Those taking a more pessimistic view regarding East Asian regionalism see the complex system of FTAs being developed, as well as the deadlock between regional economic frameworks proposed by China and Japan, as inciting a race for realist relative economic and political gains that inhibits the prospects for the development of regional institutions and identity in East Asia.<sup>112</sup> This rivalry with Japan and the resulting race to gain greater influence and closer economic relationships with regional neighbors is therefore a large factor influencing China's drive to complete FTAs throughout the Asian region.

According to Stephen Hoadley and Jian Yang, increasing China's influence in the Asia-Pacific region through free trade has also been important in order to counter what it perceives to be a US strategy of 'China containment'. They suggest that through the closer economic and political relations the FTA with ASEAN has brought about, China has been in a better position to counter US influence and unilateralism in the region through ASEAN's regional forum.<sup>113</sup> With the aforementioned Obama administration's strategic pivot back to the Asian area, including actions such as the opening up of a new US military base in Darwin Australia in 2011, commentators have suggested the US is playing 'hard ball' by trying to regain influence with its Asia-Pacific allies in order to better contain China's rise to power.<sup>114</sup> One such U.S move to gain more influence in the Asia-Pacific region has been through the Trans Pacific Partnership (TPP), a regional FTA that China is not party to and which is currently being negotiated by 12 Asia-Pacific states, including the US.

As an FTA that originally only included four countries, New Zealand, Singapore, Brunei and Chile, the TPP's membership and scope has expanded substantially with the strong support of the US in recent years. This has lead many within China's policy and academic circles to suggest that the leading factor behind

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<sup>111</sup>John Ravenhill, "The new East Asian Regionalism: A Political Domino Effect," *Review of International Political Economy* 17, no. 2 (2010): 198-200.

<sup>112</sup>Gregory P. Corning, "Trade Regionalism in a Realist East Asia," *Asian Perspective* 35, no. 2 (2011): 260.

<sup>113</sup>Hoadley and Yang, "China's Cross-Regional FTA," 334-35

<sup>114</sup>Gerald Chan, "The Rise of Multipolarity, the Reshaping of Order: China in a Brave New World," *International Journal of China Studies* 4, no. 1 (2013): 5.

US interest in the agreement is to economically contain China's rise.<sup>115</sup> They go on to suggest that the TPP is an avenue for the US to strengthen its trading relationships throughout the Asia-Pacific and a strong opportunity for American enterprises to gain better access to lucrative FTA possibilities; ultimately ensuring that the US becomes the region's trade regulations creator.<sup>116</sup> Yang Jiemian, president of the Shanghai Institute of International Studies suggests that the TPP is a way for the US to reduce and dilute China's influence in the region through what could be termed a soft confrontation.<sup>117</sup> An article in China's 'People's Daily' newspaper bluntly supported this idea by arguing that "the United States does not want to be squeezed out of the Asia-Pacific region by China. TPP is superficially an economic agreement, but contains an obvious political purpose to constrain China's rise."<sup>118</sup> Some Chinese scholars even go so far as to suggest that the US is looking to disrupt Asian regional integration so that it can gain the upper hand over China as the leading economic power in the region. They claim that a successful TPP would attract ASEAN and other US East Asian allies to adopt favorable US policies, thus supporting its return to the region and posing a threat to China's position as regional leader.<sup>119</sup> Moreover, with Japan's recent entry into TPP negotiations, China has another formidable economic rival from the East Asian region looking to gain through the regional agreement, signaling to China the increasing threat the TPP has to its regional influence.

There are those Chinese commentators however that see the US involvement in the TPP as being of little threat to China due to its undeniable importance as a trade partner to its Asia-Pacific neighbors. Others see the varying interests and uneven economic development of member states as being too large an obstacle to overcome, and therefore the potential for an agreement as being limited.<sup>120</sup> Nonetheless, China has paid close attention to the agreement and answered by proposing a regional FTA of its own called the Regional Comprehensive Economic Partnership (RCEP). This

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<sup>115</sup>Guoyou Song and Wen Jin Yuan, "China's Free Trade Agreement Strategies," *The Washington Quarterly* 35, no. 4 (2012): 107.

<sup>116</sup>Song and Yuan, "China's Free Trade," 109.

<sup>117</sup>Yang Jiemian, "The Change of America's Power and Re-structure of International System," *International Studies* no. 2 (2012): 57, quoted in Song and Yuan, "China's Free Trade," 109.

<sup>118</sup>Ding Gang and Ji Peijuan, "The U.S. Attaches Great Importance to the Pan-Pacific Partnership," *People's Daily*, July 27, 2011, quoted in "Song and Yuan, "China's Free Trade," 109.

<sup>119</sup>Shen Minghui, "A Cost Benefits Analysis of the TPP," *Contemporary Asia-Pacific* no. 1 (2012): 34, quoted in Song and Yuan, "China's Free Trade," 110.

<sup>120</sup>Song and Yuan, "China's Free Trade," 110-11.

regional agreement includes several of the same Asia-Pacific members as the TPP and even China's rival Japan.<sup>121</sup> Aside from the RCEP, China has also looked to counter growing US influence by gaining the support of its neighbors through economic favors and by seeking to establish FTAs with new partnering states. These economic favors include such things as pledges for a US\$3 billion maritime cooperation fund to help stem Vietnamese and Indonesian concerns over China's intentions in the South China Sea, as well as the offering of technology exchanges and generous credit packages of up to US\$10 billion for the ASEAN states.<sup>122</sup> China has even approached neighbors such as South Korea and Japan in an attempt to build more consolidated free trade ties within the region. This has resulted in two FTAs that have since come under consideration, the Sino-Korean and trilateral Sino-Japanese-Korean FTAs.<sup>123</sup> The competition with the US for influence in the Asia-Pacific region has clearly motivated China's decisions to build closer free trade ties with its Asian neighbors, as is evidenced by the Sino-ASEAN FTA, the RCEP, and proposals for free trade with Korea and Japan. With China's on-going concern regarding the US's strategic return to the Asia-Pacific region this competition for allies and influence looks set to continue to shape China's strategic FTA calculations for some time to come.

Another important geo-political consideration that informs China's FTA strategy is its relationship with Taiwan. For decades China has encouraged its 'One China' policy whereby it has promoted the unification of Taiwan and China under what it perceives to be China's only legitimate government, the Chinese Communist Party (CCP). Through this policy China has encouraged states to recognize Beijing's legitimacy over Taipei by pressing them to break off and refrain from formal political ties and recognition of Taiwan; actions that have become a prerequisite to building closer political and economic relationships with China.<sup>124</sup> It is no surprise therefore that political considerations regarding Taiwan are present in China's FTA strategy. When referring to China's FTA with ASEAN the authors Hoadley and Yang note that China's closer relations with the Southeast Asian states was informed by its desire to

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<sup>121</sup>Martin Sieff, "China Debates Membership in US-led Trans-Pacific Partnership," last modified August 7, [http://apdforum.com/en\\_GB/article/rmiap/articles/online/features/2013/08/07/china-debates-partnership](http://apdforum.com/en_GB/article/rmiap/articles/online/features/2013/08/07/china-debates-partnership).

<sup>122</sup>Song and Yuan, "China's Free Trade," 113.

<sup>123</sup>Song and Yuan, "China's Free Trade," 112; Ministry of Commerce, PRC, "China FTA Network."

<sup>124</sup>New Zealand Ministry of Foreign Affairs and Trade, "People's Republic of China," last modified Dec 12, 2013, <http://www.mfat.govt.nz/Countries/Asia-North/China.php>.

make it more difficult for Taiwan to build political ties with these countries, thus decreasing its chances for further autonomy from the mainland.<sup>125</sup> Chinese analysts noted the fact that Taiwan had tried to use FTAs to increase its political acceptance in the Asian region and elsewhere, and that China's policy makers needed to counter such measures through their own FTA tactics.<sup>126</sup> These Taiwan related calculations were certainly present in Central America where Costa Rica announced in 2007 that it would reverse its recognition of Taiwan as the legitimate government of China and begin diplomatic ties with Beijing instead. Shortly after this announcement China not only gifted Costa Rica with an astounding aid package to help against flooding, it also began plans to construct an oil refinery within the country and commenced free trade negotiations that led to an FTA only three years later.<sup>127</sup> This Central American region in which Taiwan enjoys its greatest level of political support and has signed its largest number of FTAs, is an area where China is looking to gain a stronger political foothold in order to counter Taiwan's legitimacy. In order to achieve this goal China has not only sought out FTAs with Central American states, it has offered lucrative economic enticements such as increased spending on infrastructure and hospitals in the region.<sup>128</sup>

An interesting development in the strategic free trade maneuvering of China and Taiwan is the signing of the Sino-Taiwanese Economic Cooperation Framework Agreement (ECFA) in 2010. Many believe this FTA has been a way for China to move one step closer to gaining greater control and influence over Taiwan.<sup>129</sup> Taiwan has however not been blind to China's goals and underlying intentions regarding reunification; it has itself had clear strategic interests in such an agreement as well. From an economic standpoint it set to gain from preferential access to the largest market in Asia through an FTA that greatly favored it by way of Chinese concessions. More importantly however, politically, the agreement with China would open the door to concluding FTAs with a number of other states without China's interference. This latter point refers to the fact that China would be much more reluctant to block

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<sup>125</sup>Hoadley and Yang, "China's Cross-Regional FTA," 334.

<sup>126</sup>Hoadley and Yang, "China's Cross-Regional FTA," 334.

<sup>127</sup>Maria Garcia, "Resources and Trade: Linking the Pacific through Bilateral Free Trade Agreements (FTA)," *Journal of World Trade* 47, no. 2 (2013): 345.

<sup>128</sup>Garcia, "Resources and Trade: Linking," 345.

<sup>129</sup>Hsiao-Hung Pal, "Taiwan's Protestors are Fighting for the Very Democracy of the Island," *The Guardian* March 25, 2014, <http://www.theguardian.com/commentisfree/2014/mar/25/taiwans-protesters-democracy-china-taiwan-strait>.

its partners from forming FTAs with Taiwan now that it had itself established such an agreement. This can be evidenced by Taiwan's recent FTAs with New Zealand and Singapore.<sup>130</sup> A recent addition to the Sino-Taiwanese FTA however, which adds a comprehensive deal on trade in services, has seen thousands of Taiwanese citizens protest its potential ratification. They believe it to be a tool of the Chinese government in gaining greater control and influence over Taiwan's media and economy, whereas the Chinese see it as simply an economic agreement set to benefit both countries.<sup>131</sup> Whichever side of the debate one is on it is abundantly clear that China's FTA strategy is strongly influenced by its political goals regarding Taiwan. Not only has China used its FTA strategy to make it increasingly difficult for Taiwan to gain political recognition in Asia and elsewhere, but it has also used it to directly integrate the countries respective economies through deeper bilateral FTA ties.

## 5.2 Other political/diplomatic reasons behind China's FTAs

Aside from China's competition with Japan and the US, its relationship with Taiwan, and its overall desire to become a regional leader and be perceived as friendly by its neighbors, there are other political strategies behind China's FTAs and its selection of free trade partners. One of the most important for China has been the recognition by its prospective partners of its status as a market economy. As a requirement for China's entry to the WTO in 2001, two protocols were put in place that stipulated that due to China's government led economy, member states could regard China as a non-market economy in anti-subsidy and anti-dumping investigations for up to a maximum of 15 years after its accession.<sup>132</sup> These protocols have made the process of prosecuting China for anti-dumping and anti-subsidy violations much easier to undertake within the WTO due to this lack of market status recognition. As member states began to increasingly incite these protocols and call for investigations against the Chinese, China's leaders began to understand the detrimental effects their acceptance of these protocols was to have on their trade within the WTO system. In

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<sup>130</sup>Ralph Jennings, "Protests in Taiwan: A Long-Term Threat to Foreign Trade?" April 21, 2014, <http://www.forbes.com/sites/ralphjennings/2014/03/24/protests-in-taiwan-a-long-term-threat-to-foreign-trade/>

<sup>131</sup>Pal, "Taiwan's Protestors are Fighting," *The Guardian*.

<sup>132</sup>Guiguo Wang, "China's FTAs: Legal Characteristics and Implications," *The American Journal of International Law* 105, no. 3 (2011): 509-11.

fact, China over the past several years has been by far the largest recipient of these trade investigations, having dealt with 536 anti-dumping investigations between 1995 and 2006, almost three times the number directed at South Korea, the country with the second highest number of investigations during this period.<sup>133</sup>

It has therefore become a political strategy for the Chinese to link the acceptance of its market status economy with any FTAs that it is party to, resulting in partnering countries foregoing the option of being able to prosecute China in the WTO as a non-market economy. Certainly to date, all of China's FTA partners have accepted this market economy status before entering into free trade negotiations, and China has made it abundantly clear that any future partners will need to follow suit.<sup>134</sup> The best example of China rewarding such political actions is the FTA signed with New Zealand in 2008. As the first state in the world to recognize China's market status economy in 2004, and one of the first to support its accession to the WTO, it became a clear choice for China when deciding which developed Western state it should begin free trade with first. Commentators suggest that China was in some ways rewarding New Zealand for its political support and signaling to others that similar rewards would await those prepared to accept China's market status economy.<sup>135</sup> Certainly this underlying strategy seems to have worked well for China as shortly after New Zealand's announcement, other countries such as Singapore, Malaysia, and Australia immediately followed suit.<sup>136</sup> These announcements consequently paved the way for a snowball effect that has seen countless numbers of states accept China's market status economy over the past several years. This has resulted in increasing pressure on those states that have yet to accept this status, including the US and the EU, China's largest trading partners.

It is clear that China's FTA partner selection certainly adheres to questions of political gestures and good overall relations, as evidenced by China's market economy status considerations, but other political motivations including historical support of China's policies seem to weigh in heavily as well. In an official statement by Vice Minister of the Ministry of Commerce of the People's Republic of China

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<sup>133</sup>Jian Yang, "China's Competitive FTA Strategy: Realism in a Liberal Slide," (paper presented at the International Symposium 'Competitive Regionalism', p. 10, Tokyo, Japan, May 30-31, 2008).

<sup>134</sup>Wang, "China's FTAs: Legal," 499-500.

<sup>135</sup>Hoadley and Yang, "China's Cross-Regional FTA," 339.

<sup>136</sup>Hoadley and Yang, "China's Cross-Regional FTA," 338.

(MOFCOM), four criteria were laid down as decisive in China's selection of FTA partners. Firstly, the partner must have good diplomatic and political relations with China, secondly, it must have complementary trade patterns and economic structures, thirdly, the country must have a vast domestic market or serve as a regional FTA hub, and lastly, it needs to share a common desire for free trade with China.<sup>137</sup> Of these criteria however it is clear that having good political and diplomatic relations with China weighs heavier than most. As the author Kong Qingjiang points out, most of China's current FTA partners have historically supported China politically or enacted diplomatic actions that have gained its favor.<sup>138</sup>

The FTA with Pakistan can certainly be seen as a result of a historically cooperative relationship. For decades Pakistan has supported China politically and cooperated in mutual border concerns whilst acting as an important ally and buffer between China and India. Economically Pakistan is not an attractive market for China, but due to their cooperative political relationship and Pakistan's strategic location as a possible oil-shipping gateway to the oil rich areas of Central Asia and the Middle East, China has engaged it through an FTA nonetheless.<sup>139</sup> Likewise, Chile has enjoyed good political relations with China for several years and was the first South American country to establish diplomatic ties with the mainland and support its 'One China' policy'. It is therefore not surprising that it became the first South American country to enter into an FTA with China in 2005.<sup>140</sup> The FTA between China and Singapore signed in 2008 can also be looked at from a political and diplomatic point of view. Singapore, a country dominated by ethnically Chinese citizens, has maintained good relations with China throughout the past few decades. Importantly, in 1990 it was one of only a few countries in the world to offer support to China when it faced stringent world sanctions following the Tiananmen massacre in 1989.<sup>141</sup> The starkest example of China 'rewarding' a state's political actions through an FTA however is the case of Costa Rica. Barely a year after it had switched its recognition of China's capital city from Taipei over to Beijing, the two states had formally begun FTA proceedings and signed into force an agreement two years later

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<sup>137</sup>Qingjiang, "China's Uncharted FTA Strategy," 1202.

<sup>138</sup>Qingjiang, "China's Uncharted FTA Strategy," 1202.

<sup>139</sup>Yang, "China's Competitive FTA Strategy," 17-18.

<sup>140</sup>Qingjiang, "China's Uncharted FTA Strategy," 1202.

<sup>141</sup>Qingjiang, "China's Uncharted FTA Strategy," 1202-03.

in 2010.<sup>142</sup> Whether a country has historically supported China and its policies, or enacted diplomatic gestures that have won its favor, it is clear China's FTA strategy and its selection of partners is motivated by a sense of rewarding states for their support. This strategy sends a clear message to the international arena that those who follow a similarly cooperative path can also gain access to preferential trade with one of the world's largest markets.

### **5.3 Economic motivations behind China's FTA drive**

Although there are an abundance of political and diplomatic influences behind China's FTAs, it cannot be forgotten that economic motivations play a large part in China's search for new and more liberalized trade. As was previously mentioned, the slow pace of the WTO negotiations and the barriers China faces in regards to investigations have made FTAs a more attractive option in its pursuit to satisfy the needs of its enormous market. The growing protectionist pressures in the US and EU, China's two largest trading partners, have also led China to continue diversifying and to seek alternative arrangements in order to further liberalize its trade and gain favorable access to markets.<sup>143</sup> It is also argued that China has been responding to the actions of other large trading states and organizations that have in recent history pursued aggressive FTA strategies, and that in order to create a level playing field and ensure that its exports and investments don't suffer through trade diversion and discrimination, China has itself embarked on such a competitive FTA strategy.<sup>144</sup>

As a country still 'developing' and one that is dominated by an export oriented growth strategy, China needs access to foreign capital, technology and trade in order to fuel its growing economy and continue its impressive annual GDP growth. The reduction of tariffs and nontariff barriers through more open access to markets, allows for a complimentary and more profitable trade, business and investment environment, whilst at the same time opening China's domestic economy up to competition that can help enhance its efficiency and development. As China tries to convert to a full-fledged market economy this increased competition becomes ever more important as

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<sup>142</sup>Qingjiang, "China's Uncharted FTA Strategy," 1203.

<sup>143</sup>John Ravenhill and Yang Jiang, "China's Move to Preferential Trading: A New Direction in China's Diplomacy," *Journal of Contemporary China* 18, no. 58 (2009): 34.

<sup>144</sup>Zhao and Webster, "Taking Stock: China's First," 82-83.

a part of its national policy for domestic development and reform. In 2007 the Chinese leadership announced for the first time officially that FTAs were to be an integral part of a national strategy for economic development, signaling their importance to China's overall economic wellbeing and continued growth.<sup>145</sup> The economic considerations motivating China's FTA strategy are therefore plentiful. Not only does it wish to gain from those economic benefits that free trade is set to entail, such as unhindered access to new markets and increased liberalization, it also needs to counter the protectionist pressures of the EU and US and join the growing free trade environment in order to avoid being marginalized through trade diversion and discrimination.

Other economic considerations have also encouraged China's pursuit of mostly bilateral FTAs, such as the awkward situation it finds itself vis-à-vis developing countries in the WTO. As an economy driven by exports in resource and labor intensive products, China, which is aligned with the G20 group of major developing countries within the WTO, would actually compete with the industrial structure of its G20 partners rather than compliment them. This means that China's interests are more aligned towards major developed, rather than developing states.<sup>146</sup> An example of this is in the realm of agricultural subsidization, an area considered to be the largest sticking point in the Doha Round of WTO negotiations between developed and developing countries. China, with its weak agricultural sector and reliance on agricultural imports, would suffer detrimental effects if subsidies on agricultural products were to be eliminated as most developing economies wish them to be. Furthermore, in regards to 'trade facilitation', due to China's enormous volume of exports, it would benefit from binding trade facilitating rules that would lower trade costs and heighten customs efficiency, rules that the developing countries have voted against.<sup>147</sup> Although China's interests are different to developing countries within the WTO, parting from the official G20 line would be embarrassing and politically detrimental for China. This has meant that following a system of bilateral FTAs has allowed China to pursue its true economic interests without having to align or answer to outside parties such as the G20. This fact, combined with the high number of investigations and protectionist barriers China's partners have brought

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<sup>145</sup>Wang, "China's FTAs: Legal," 495.

<sup>146</sup>Qingjiang, "China's Uncharted FTA Strategy," 1200.

<sup>147</sup>Qingjiang, "China's Uncharted FTA Strategy," 1200.

against it in the WTO, have provided strong economic motivations for China to seek agreements elsewhere and to continue its development of an alternative FTA strategy.

### 5.3.1 *Natural resources*

One of the most important factors behind China's drive for FTAs and its selection of partners is its search for natural resources in order to fuel and sustain its economic growth. This growth has to date required a vast supply of raw materials that China has not been able to produce on its own, and as a result of China's energy deficiencies, imports of oil and other resources have continued to rise. For instance, China's annual increase in oil consumption between 2000 and 2009 was 6.78%, and its dependence on imports for that oil rose from 24.8% to 51.29%, making it the second largest oil importing country in the world.<sup>148</sup> China is also the world's biggest consumer of iron ore, copper, steel, tin, zinc and coal, the second biggest importer of aluminium, and the fourth largest consumer of Gold.<sup>149</sup> It is no surprise then that resource considerations were behind China's FTA agreements with its South American partners Chile and Peru, the former being abundantly rich in copper reserves and the latter endowed with vast deposits of silver, iron ore and copper.<sup>150</sup> Similarly, New Zealand with its healthy mineral resources and increasing oil exports and exploration make it a prime candidate, while Pakistan as mentioned earlier is potentially an important player in China's access to Central Asian and Middle Eastern oil routes.

Iceland, although a small economy, is also a good candidate for China's energy needs. Some of its largest exports are in aluminium and its world-leading geothermal technological and technical know-how means that China can use this knowledge to improve its own geothermal capabilities.<sup>151</sup> The FTA with ASEAN, although originally motivated mostly by political considerations, is sure to help China secure its resource needs as well. Several of the ASEAN countries are endowed with natural gas and petroleum, and are exporters of numerous types of minerals.<sup>152</sup> It is also clear that natural resources are a large consideration behind China's current FTA

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<sup>148</sup>Wang, "China's FTAs: Legal," 507.

<sup>149</sup>Zhao and Webster, "Taking Stock: China's First," 94.

<sup>150</sup>Zhao and Webster, "Taking Stock: China's First," 95.

<sup>151</sup>Lanteigne, "Northern Exposure," 372-73.

<sup>152</sup>Wang, "China's FTAs: Legal," 507.

negotiations with Australia, the GCC, and Norway. Australia has vast deposits of mineral reserves and an ever-expanding natural gas industry, whereas the GCC states and Norway are some of the largest oil and gas producers in the world. According to Qingjiang the investment provisions included in many of China's FTAs provide it with an important avenue for which to both invest in and control these many strategic resources.<sup>153</sup> Through FTAs China has also sought to ensure that its resource investments don't face discrimination and that its resource corporations are awarded the same preferential access as other partners.<sup>154</sup> Resource abundance and investment opportunities are therefore important considerations motivating China's search for free trade partners, as can be evidenced by the states China is currently conducting free trade with. As world resources continue to be squeezed by increasing demand this trend looks set to continue to influence China's selection of partners well into the future.

### 5.3.2 *FTA Hubs*

Another important factor influencing China's choice in FTA partners is whether or not they are members of other networks of FTAs, making them FTA 'hubs'.<sup>155</sup> The 'hub and spoke' effects of free trade refers to the trade promoting effects in which an FTA gives to a hub country and its partners (spokes) through intertwined and indirect avenues of trade.<sup>156</sup> Therefore by entering into an FTA with a country already connected to an existing network of FTAs, a new partner might indirectly gain from arrangements already in place and potentially tap into larger markets connected to the hub country. However, most FTAs have 'country of origin' provisions that make it hard but not impossible for such indirect gains to be made. Although most of China's FTA partners have small domestic markets that provide limited potential for China's exports, many of them belong to this categorization of free trade 'hubs'. Commentators have suggested that for China, joining into an FTA with a hub country can be a "highly cost effective way of exploring new markets."<sup>157</sup>

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<sup>153</sup>Qingjiang, "China's Uncharted FTA Strategy," 1200.

<sup>154</sup>Ravenhill and Jiang, "China's move to preferential," 33.

<sup>155</sup>Zhao and Webster, "Taking Stock: China's First," 111.

<sup>156</sup>Qingjiang, "China's Uncharted FTA Strategy," 1204.

<sup>157</sup>Qingjiang, "China's Uncharted FTA Strategy," 1204.

An analysis of the free trade networks in which China's current and potential FTA partners are members of shows the extent to which they have become FTA hubs in their respective regions. Chile is an associate member of both MERCOSUR and the Andean Community, two powerful South American trade and customs unions; Iceland, Norway and Switzerland, are all members of the European Free Trade Association (EFTA), with the first two also being members of the EU's European Economic Area (EEA); while Pakistan is a member of the South Asian Association for Regional Cooperation (SAARC), an economic and political cooperation forum consisting of eight South Asian states.<sup>158</sup> Other current and potential partners such as Singapore, Costa Rica, New Zealand and Australia are also seen to be important trading hubs, with their respective trade networks covering a whole range of FTAs with important states that China has yet to establish FTA ties with such as the US, Japan, South Korea and Canada.<sup>159</sup> Judging by its current and potential partners memberships of pre-existing FTA networks, it is clear that China places much importance to the fact that its prospective partners act as FTA hubs in their respective regions, a point that has been expressly made by the Chinese through the aforementioned four point criteria on partner selection.

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<sup>158</sup>Qingjiang, "China's Uncharted FTA Strategy," 1204.

<sup>159</sup>New Zealand Ministry of Foreign Affairs and Trade, "Trade Relationships and Agreements," last modified March 17, 2014, <http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/index.php>; Qingjiang, "China's Uncharted FTA Strategy," 1204; Foreign Affairs Trade and Development Canada, "Canada's Free Trade Agreements," last modified December 12, 2013, <http://www.international.gc.ca/trade-agreemen,ts-accords-commerciaux/agr-acc/fta-ale.aspx?lang=eng>.

## 6. General characteristics of China's FTA strategy

Although China's choice in FTA partners certainly adheres to a number of strategic political and economic calculations, it is important to address the general characteristics of China's FTA strategy in order to gain a wider perspective of its free trade preferences. It is clear that China's free trade strategy is one characterized by flexibility and the ability to adapt to the circumstances and needs of each partner on a case-by-case basis. In contrast to states such as the US, Japan and South Korea, which have clearly defined FTA strategies, China tends to design individually tailored FTAs that address the varied preferences of its partners, resulting in agreements that are highly differentiated in terms of their substance.<sup>160</sup> When it comes to the partners' preferences on issues of goods, services, intellectual property rights, and their desire in terms of the overall comprehensiveness of an FTA, China is a very accommodating and obliging free trade partner.<sup>161</sup> Unlike the Japanese free trade model that has seen Japan encourage investments and transnational production lines in the Asian region, whilst at the same time closing off its domestic market to most of its partners products, China has taken on a more US based approach to its FTAs by encouraging more open integration. This integration involves not only inviting partners to establish meaningful commercial presences in its own markets, but also increasing bilateral investments and taking its relationships beyond solely economic considerations.<sup>162</sup> This is not to suggest that China's FTAs follow the exact same path as the US. For one, the two countries have very different perspectives in regards to their selection of free trade partners, with China not being deterred or as concerned by a country's political situation, human rights record, or environmental protection, as other states such as the US are.

Another general characteristic of China's FTA strategy is the fact that it seeks out states with substantially smaller economies and those that it has low volumes of bilateral trade with. This gives China a chance to learn from its free trade on 'safe ground', where it is not risking a flood of goods, services or investments into its domestic market that might have detrimental effects on certain sectors or disrupt the leadership's economic policies. As one Chinese commentator stated, "China does not

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<sup>160</sup> Qingjiang, "China's Uncharted FTA Strategy," 1205; Wang, "China's FTAs: Legal," 498.

<sup>161</sup> Zhao and Webster, "Taking Stock: China's First," 100.

<sup>162</sup> Zhao and Webster, "Taking Stock: China's First," 89-90.

have the confidence to open its market to those economies that are huge and far more advanced than its own.”<sup>163</sup> It is also clear that China has placed much importance on its partners having well functioning economies and high credit ratings. Taking into account Chile and Peru’s ratings as the top two creditworthy countries in South America, as well as the healthy and sophisticated economic structures of current and potential partners such as New Zealand, Singapore, Switzerland, Iceland, Norway and Australia, it is clear that China wishes to establish FTAs built on solid economic foundations in order to avoid potential economic problems that may arise.<sup>164</sup> The increasing level of sophistication and comprehensiveness of China’s FTAs are also factors that characterise the evolution of its on-going free trade. China’s early FTAs were defined mostly by the reduction of traditional trade barriers such as tariffs and covered simply the trade in certain goods. Since this time, China and its partners have negotiated far-reaching and comprehensive FTAs that cover not only goods, but also areas such as investment, services, intellectual property, and even environmental protection and the movement of persons.<sup>165</sup> It is clear that this trend towards more comprehensive agreements will continue as China gains more confidence through its free trade experiences. With the deadlock in world trade liberalization within the WTO and the newfound international interest and competition in developing FTAs, it looks as though the stage is set for China’s FTA strategy to continue to evolve and grow well into the future.

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<sup>163</sup>Sheng Lijun, “China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations 8 (Institute of Southeast Asian Studies, Working Paper: International Politics and Security Issues Series no. 1, 2003) quoted in Zhao and Webster, “Taking Stock: China’s First,” 96.

<sup>164</sup>Zhao and Webster, “Taking Stock: China’s First,” 96.

<sup>165</sup>Wang, “China’s FTAs: Legal,” 500.

## **7. China's Trade with the West - New Zealand and Iceland**

This section will take a closer look at the first two Western states China has established free trade with, New Zealand and Iceland, in order to better understand the calculations behind China's initial leap into free trade with the developed Western world. By assessing what attracted China's interest in free trade with these countries a better understanding of its initial and ongoing intentions regarding deeper economic integration with the West in both the Asia-Pacific and European regions can be grasped. This understanding is even more important given China's increasing free trade focus towards the West. The Sino-New Zealand FTA will first be assessed focusing initially on the close political and diplomatic relationship the two states have historically shared. New Zealand's attractive agricultural sector, natural resources, status as an FTA 'hub', and non-threatening and complimentary economy will be examined in order to better explain China's political and economic interest in free trade with the Pacific State. The political and economic calculations behind China's interest in free trade with Iceland will follow thereafter. A look will be taken at the close political relationship the two sides have historically shared as well as Iceland's attractiveness to China as a 'side door' approach to economic diplomacy on the European Continent. Iceland's role as an important ally for the Chinese in the Arctic will also be assessed, as well the attractiveness of its natural resources and geothermal capabilities. Lastly, Iceland's non-threatening and complimentary market structure will be looked at as well as the role it has played as a 'safe' avenue for China to test its free trade strategy on the European continent. Although the following sections will address some of the same political and economic motivations mentioned in previous chapters, it will apply them to New Zealand and Iceland through a more thorough analysis. Other factors motivating China's interest in these two states are however very country specific, and will be given a thorough examination as well.

### **7.1 Sino-New Zealand FTA**

The FTA between China and New Zealand signed in April 2008 marked a historic event in world trade, as New Zealand became the first developed Western country in

the world to sign an FTA with China. A closer examination of the reasons behind China's choice in New Zealand as a free trade partner is therefore important in order to understand what made it such an attractive option, especially considering China's lack of bilateral free trade relationships geared towards the West at the time. The positive political and diplomatic relationship China and New Zealand shared before the FTA signing in 2008 certainly helps to explain their economic agreement, and adds credence to the aforementioned argument that China takes political and diplomatic relationships strongly into account when choosing its free trade partners. New Zealand and China have enjoyed a long-standing diplomatic relationship since 1972, when New Zealand first recognized the People's Republic of China as the mainland's legitimate government, and signed a joint communiqué stating that it would refrain from 'official' dealings with Taiwan.<sup>166</sup> Although New Zealand has had good cultural and trade ties with the Taiwanese it has supported China's 'One China' policy for decades, thus resulting in years of political goodwill in the eyes of the Chinese.

From the mid-1990s onwards diplomatic relations between the two countries began to grow steadily. High-level visits, communication between government officials, foreign ministry consultations, and formal bilateral dialogues began to increase rapidly from year to year.<sup>167</sup> New Zealand also became a popular destination for Chinese businessmen and students, with Chinese citizens becoming New Zealand's largest source of international students, reaching a peak of 65,000 in 2004.<sup>168</sup> New Zealand was also the first Western state to be put on China's list of 'approved destination status' (ADS) in 1999, meaning that Chinese citizens could travel unrestricted to New Zealand for leisure. Since this time the number of Chinese tourists travelling to New Zealand has increased tenfold, resulting in China becoming the second largest source of travellers to the New Zealand, after only Australia.<sup>169</sup> Clearly this cooperative political and diplomatic relationship has played a large role in China's willingness to pursue an FTA with New Zealand, coupled with the fact that as

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<sup>166</sup>New Zealand Embassy Beijing, China, "New Zealand and China," <http://www.nzembassy.com/china/relationship-between-new-zealand-and-china/new-zealand-and-china>.

<sup>167</sup>New Zealand Ministry of Foreign Affairs and Trade, "People's Republic of China," last modified December 12, 2013, <http://www.mfat.govt.nz/Countries/Asia-North/China.php#bilateral>.

<sup>168</sup>New Zealand Ministry of Foreign Affairs and Trade, "People's Republic of China," last modified December 12, 2013, <http://www.mfat.govt.nz/Countries/Asia-North/China.php#bilateral>.

<sup>169</sup>New Zealand Ministry of Foreign Affairs and Trade, "People's Republic of China," last modified December 12, 2013, <http://www.mfat.govt.nz/Countries/Asia-North/China.php#bilateral>.

previously mentioned, New Zealand was also the first country in the world to recognize China's market economy status and support its accession to the WTO. Whether or not, as some commit, China was 'rewarding' New Zealand's behaviour through an FTA, it is clear that such long standing cooperative relations made New Zealand an easy choice in regards to China's first steps towards free trade with a Western developed state.

Other considerations not related directly to political relationships however also played their part in China's choice of New Zealand as an FTA partner. One of these is the fact that New Zealand and China have complimentary economies. China's main exports to New Zealand have included such things as textiles, footwear, toys, furniture, plastic products and household appliances, whereas New Zealand's exports to China have covered mostly agricultural and forestry products.<sup>170</sup> In fact, it is suggested that New Zealand's agricultural goods and technologies played a role in spurring China's interest in free trade with New Zealand as it wanted better access to, and cooperation on agricultural technology.<sup>171</sup> Qingjiang posits that China, with its poor performing per capita land ratio, needs to secure agricultural supplies in order to free up workers from its backward agricultural sector in order to man its large manufacturing industries.<sup>172</sup> New Zealand is therefore not only a great candidate in order to achieve the development and upgrading of China's agricultural sector through superior technologies, competition and know-how, it can supply them with top quality agricultural goods in order to free up some of China's agricultural labour force.

Another factor behind New Zealand's attractiveness to China is the fact that it is a small, open and non-threatening economy. Due to this fact, New Zealand was the perfect place for China to embark on its first FTA with a developed Western state, as well as a great avenue for China to learn and carry on developing its FTA skills.<sup>173</sup> Furthermore, any actions in regards to goods, services, or investments from New Zealand's side would not deliver any sizeable impact to China's vast economy or disturb its leadership's economic policy settings. Comments made by New Zealand's

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<sup>170</sup>Hoadley and Yang, "China's Cross-Regional FTA," 337.

<sup>171</sup>Hoadley and Yang, "China's Cross-Regional FTA," 337.

<sup>172</sup>Qingjiang, "China's Uncharted FTA Strategy," 1200.

<sup>173</sup>Hoadley and Yang, "China's Cross-Regional FTA," 339; Yang, "China's Competitive FTA Strategy," 22-23.

Trade Minister Jim Sutton in 2005 give merit to this idea. He stated that New Zealand was ‘safe ground’ for China and that, “China clearly wants to gain experience in bilateral agreements and we are a risk-free option.”<sup>174</sup> Aside from being a comfortable initial option in order to ‘test’ its FTA commitments, New Zealand is also highly interconnected with Australia in both the political and economic realms, making it an attractive option for the Chinese who have wished to gain closer economic cooperation with the much larger Australian economy. As a country China is currently negotiating free trade with, Australia has been an attractive free trade prospect for some time and is already a large exporter of natural resources to China’s markets. The Chinese leadership have made no secret of their wish to gain access to Australian natural resources at ‘reasonable prices’ and their hope that an FTA with Australia will give better terms and access to their large resource corporations.<sup>175</sup> The FTA with New Zealand was therefore a good way to not only take advantage of any possible ‘hubbing’ effects through New Zealand’s pre-existing FTA with Australia, it was a good predecessor and testing ground for a possibly larger China-Australia FTA.

## **7.2 Sino-Icelandic FTA**

In 2012 China signed its second FTA with a developed Western state, Iceland, a country of 320,000 people with an annual GDP of only US\$13.5 billion compared to China’s more than US\$8.2 trillion.<sup>176</sup> At first glance it is certainly perplexing that China would enter into an FTA with such a miniscule market so far away from its own region. It is therefore important to understand what reasons were shaping China’s choice in Iceland as a free trade partner. To start with, Iceland has maintained good political and diplomatic relations with China over the past few decades, a factor that as has been seen, lends heavily to which countries China’s decides to enter into free trade with. The two states began formal diplomatic ties in 1971 and shortly thereafter began a complimentary political relationship. The early 1970s saw not only Iceland recognize China’s right to regain its previous legitimate United Nations seat, but also saw China support Iceland’s claims to an extension of its exclusive economic fishing

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<sup>174</sup>Hoadley and Yang, “China’s Cross-Regional FTA,” 339.

<sup>175</sup>Ravenhill and Jiang, “China’s move to preferential,” 33-34.

<sup>176</sup>The World Bank, “GDP (current US\$),” <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

zone.<sup>177</sup> In 1972 an official Chinese embassy was established in Iceland with bilateral exchanges and official leadership visits increasing gradually since that time.

Trade and economic exchanges between the two countries also began to increase from the 1980s onwards, and various bilateral commitments in the areas of trade, investment, taxation, culture and air were signed between the respective governments from the late 1980s through to the early 2000s.<sup>178</sup> From the 1990s onwards Icelandic politicians, Reykjavik city council members, business leaders and professionals began to travel to China in order to take advantage of the new and exciting opportunities it had to offer, with an Icelandic Embassy being established in 1995.<sup>179</sup> The Icelandic President himself, Ólafur Ragnar Grímsson, lead a large delegation to China in 2005, a trip that resulted in the successful preparation of several inter-state business contracts.<sup>180</sup> These cooperative political and diplomatic ties certainly helped shape China's interest in Iceland as its first European free trade partner, and like New Zealand, Iceland played a pivotal role in the acceptance of China's full market economy status, becoming the first developed European country to do so in 2005.<sup>181</sup> This recognition paved the way for other European countries to follow suit soon after and set a precedent on the European continent regarding access to preferential trade with the Chinese mainland, factors the Chinese would have held in high regard.

Another important political and economic motivation behind China's choice of free trade with Iceland is what Marc Lanteigne has described as China's 'side door' approach to commercial diplomacy on the European continent. This 'side door' approach refers to the influence and experience China can gain of the European economy through an FTA with a European state that is outside of the EU.<sup>182</sup> Although the EU and China are each other's largest trading markets, with trade having increased 60 fold between 1975 and 2005 to US\$210 billion, there are still a number

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<sup>177</sup>Embassy of the People's Republic of China in the Republic of Iceland, "China and Iceland," <http://is.china-embassy.org/eng/zgybd/t98175.htm>.

<sup>178</sup>Embassy of the People's Republic, "China and Iceland," <http://is.china-embassy.org/eng/zgybd/t98175.htm>.

<sup>179</sup>Asia Portal, "Sino-Icelandic Relations in times of Intense Globalization – Mutual Respect and Benefits for all?" <http://infocus.asiaportal.info/2009/06/08/junesino-icelandic-relations-times-intense-globalization-mutual-respect-and-benefits-all/>.

<sup>180</sup>Asia Portal, "Sino-Icelandic Relations," <http://infocus.asiaportal.info/2009/06/08/junesino-icelandic-relations-times-intense-globalization-mutual-respect-and-benefits-all/>.

<sup>181</sup>Lanteigne, "Northern Exposure," 371.

<sup>182</sup>Lanteigne, "Northern Exposure," 364.

of economic and political problems hindering the further liberalization of trade between the two sides.<sup>183</sup> The EU has in recent years become increasingly concerned with China's market structure and its overall dedication to fair trade, as well as its increasing trade deficit vis-à-vis China and what it perceives to be unfair trade distortions resulting from its undervalued Renminbi. Moreover, EU member states have developed an increasingly negative view of Beijing due to factors ranging from China's intellectual property rights abuses, to the outsourcing of jobs to China, and the very limited access that can be gained to many of its economic sectors.<sup>184</sup> Likewise Beijing has in recent years become upset by a number of EU actions including its persistent use of anti-dumping laws against China, its refusal to accord China with a market status economy, its continuing application of an arms embargo put in place after the 1989 Tiananmen incident, and its increasing politicisation of trade which has resulted in what China describes as unfair trade barriers.<sup>185</sup>

The application of a 'side door' approach is therefore a strategically useful way for China to bypass its frosting relations with the EU by courting non-EU European states in FTAs. Although these agreements won't give China direct access to the EU's single market, it will give it increased influence, insight and engagement with the European economy and provide it with a better understanding of the EU's trade practises and the possible challenges that lay ahead for closer Chinese-EU economic engagement.<sup>186</sup> An FTA with Iceland as the start to such a 'side door' approach is therefore understandable, and with its initiation and successful conclusion the prospect for further agreements with other non-EU states becomes a more viable option. In fact, since the Sino-Icelandic agreement, two other EFTA states have entered into FTA negotiations with China. Firstly Switzerland, which concluded negotiations and signed into an agreement with China in 2013, and secondly Norway, which is in the later stages of concluding such an agreement. This situation not only gives China added economic influence in the European area, it gains the wholehearted attention of the European Commission which sees outside states prospering from free access to a vast and lucrative market that its organization has yet to gain such

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<sup>183</sup>Lanteigne, "Northern Exposure," 368.

<sup>184</sup>Arnaldo M. A Concalves, "The EU and China Bilateral Relationship: Looking for a Fresh Restart," *Journal of Comparative politics* 5, no. 2 (2012): 77-78.

<sup>185</sup>Concalves, "The EU and China Bilateral," 77-78.

<sup>186</sup>Lanteigne, "Northern Exposure," 370.

preferential access to. This adds pressure on the EU to rethink its tactics in regards to trade relations with China.

Another motivation behind China's pursuit of an FTA with Iceland is its growing interest in the Arctic region. With the polar ice increasingly melting over the past several years, the prospect of access to vast oil, mineral, and gas reserves in the Arctic, as well as the potential new shipping routes it will provide, has led many countries including China to take a more active approach towards developments in the area. In fact, prior to signing its FTA with Iceland in April 2013, China had been looking to secure permanent observer status in the Arctic Council, an eight member intergovernmental forum including Iceland that decides on policy and promotes cooperation in the Arctic region. Less than a month after the Sino-Icelandic FTA was signed, China, along with five other Asian states, was awarded this permanent status, giving it an avenue with which to have its interests heard whilst gaining increased influence over policies and cooperation in the Arctic area.<sup>187</sup>

China's interest in the region has also been made clear by its proposal to sink a US\$2.3 billion dollar investment scheme into Greenland in order to extract millions of tons of iron ore annually. Moreover, in August of 2012, a Chinese ship carrying over 60 scientists completed a 30,000km journey through the Arctic from Shanghai to Iceland in order to prove its viability as a shipping route between northern Europe and Asia. The route cut two weeks and 6,400km off the standard journey between the two areas.<sup>188</sup> As President Grímsson stated in a speech to US think tank the 'Council on Foreign Relations' in April 2013, "the Chinese are already building ships to transport cargo across the northern sea route, and they will start aggressively in this decade, and when I go to Shanghai in June they want to take me to the shipyards and the headquarters of the shipping companies to demonstrate how serious they are."<sup>189</sup> It is therefore hard to separate China's FTA with Iceland and its interest in gaining a stronger foothold in the Arctic region, these factors were clearly taken into

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<sup>187</sup>Steven Lee Myers, "Arctic Council Adds 6 Nations as Observer States, Including China," *New York Times*, May 15, 2013, [http://www.nytimes.com/2013/05/16/world/europe/arctic-council-adds-six-members-including-china.html?\\_r=0](http://www.nytimes.com/2013/05/16/world/europe/arctic-council-adds-six-members-including-china.html?_r=0).

<sup>188</sup>Andrew Trotman, "Iceland First European Country to sign Free Trade Agreement with China," *The Telegraph*, April 15, 2013, <http://www.telegraph.co.uk/finance/economics/9995525/Iceland-first-European-country-to-sign-free-trade-agreement-with-China.html>.

<sup>189</sup>Ólafur Ragnar Grímsson, "The Future of the Arctic: A new Global Playing Field," YouTube video, 59.13, posted by "Council on Foreign Relations," April 16, 2013, <https://www.youtube.com/watch?v=dol4Xa9TI9I>.

consideration when China agreed to closer economic relations with one of the Arctic Council's most active members. Now with the possibility of a Sino-Norwegian FTA, China could gain even more influence in the region by being party to an FTA with a second Arctic Council member, one that is notably larger and geographically closer to the Arctic shelf making it an influential partner in the region.

Aside from these larger considerations associated with gaining a stronger foothold in the European Economy and in the Arctic region, there are other motivations that have made Iceland an attractive free trade partner for the Chinese. One of these is closer cooperation in geothermal technology transfers and development. In recent years China has been seeking help from Iceland in order to develop its underutilized geothermal capabilities so that it can produce more efficient and environmentally friendly power sources to fuel its expanding economy. In April 2012, a year before the Sino-Icelandic FTA was signed, the Chinese premier Wen Jiabao visited Iceland on his European tour, signing a memorandum of understanding (MOU) with Iceland that included a number of geothermal cooperation projects between the two states. These included both the MOU between the Icelandic Foreign Ministry and the Chinese ministry of Land Resources on Geothermal and Geosciences Cooperation, as well as the Framework Agreement between Orka Energy Ltd and China Petrochemical Corporation (SINOPEC Group) on Expansion of Geothermal Development Scope and Cooperation.<sup>190</sup>

Thus far, Sino-Icelandic geothermal projects have already been established in China's Xianyang province, with teams looking to increase the Xianyang plant's current heating capacity of one million square metres of housing, to 30 million in 2015 and a 100 million by 2020.<sup>191</sup> Other projects between Iceland and China are to include the Xiong County, as well as the Hebei and Shandong provinces. China has also in recent years made up the vast majority of overseas students studying at the United Nations University Geothermal Training Programme in Reykjavik, showing their dedication to acquiring knowledge from Iceland's advanced geothermal sector.<sup>192</sup> China's geothermal energy goals are therefore strong economic

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<sup>190</sup>Örn D. Jónsson, Injalður Hannibalsson and Li Yang, "A Bilateral Free Trade Agreement between China and Iceland," (paper presented at Þjóðarspejillinn Conference at Háskoli Íslands, Reykjavík, Iceland, October 25, 2013).

<sup>191</sup>Jónsson, Hannibalsson and Yang, "A Bilateral Free Trade Agreement."

<sup>192</sup>Lanteigne, "Northern Exposure," 373.

considerations that have helped shape China's desire to establish closer ties with Iceland through free trade. An FTA with Iceland allows China to establish a stronger relationship in the geothermal services and technology sectors, helping China to further develop the skills, know-how and technology it needs in order to divert some of its energy needs away from the use of coal, as well as its dependency on overseas oil and gas.

Other factors that have made Iceland an attractive option include its complimentary market structure. Iceland's exports to China include mainly fish and related fisheries technologies, whereas China's exports to Iceland involve larger products such as ships as well as a variety of manufactured goods. Iceland's stature as a small and non-threatening market also makes it an appropriate option for China to begin testing out its free trade strategy on the European Continent. These considerations are very similar to those given to New Zealand five years earlier when it became the first developed Western state to enter into free trade with China. Clearly China wishes to begin free trade in new regions with friendly, economically complimentary and non-threatening small markets, so that it can learn and gain additional experience before moving onto bigger agreements. President Grímsson mentioned in 2013 that the FTA between Iceland and China was a good place for the latter to gain experience in Europe and that it was a prime testing ground for China's European free trade strategy. He went on to suggest that the FTA was also "one way for China to demonstrate that they want a positive engagement with Europe and the rest of the world, and that they want to play by the rules."<sup>193</sup> Other factors that may have added to Iceland's attractiveness is the fact that it is a member of the military alliance the North Atlantic Treaty Organization (NATO), and acts as an important strategic gateway between North America and Europe. These facts would have added a great deal of prestige and symbolism for the Chinese when concluding an FTA with Iceland, and from a geo-strategic point of view provides China with an economic ally in the northern Atlantic corridor.

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<sup>193</sup>Ólafur Ragnar Grímsson, "The Future of the Arctic: A new Global Playing Field," YouTube video, 59.13, posted by "Council on Foreign Relations," April 16, 2013, <https://www.youtube.com/watch?v=doI4Xa9TI9I>.

## 8. Discussion

Having covered the main reasons behind China's FTA strategy, its selection of partners, and its general characteristics, it is important to look at these factors from the theoretical points of view covered earlier in the thesis in order to assess to what extent China's FTA actions have been influenced by these theoretical camps. Certainly it is easy to suggest that anything related to the pursuit of free trade that opens up economies and builds mutually beneficial interdependencies, are actions influenced by liberalism and Adam Smith's vision of a free and unhampered market. However, there are also realist calculations at work behind China's pursuit of FTAs, as well as some mercantilist tendencies that are important to understand. This section, although bringing to light these realist influences and mercantilist tendencies, does conclude that China has sought mostly a liberal inspired strategy of FTAs, whereby it has looked to build beneficial trade relationships whilst at the same time being flexible and often generous in dealing with its partners. Ultimately, China's FTA strategy is one characterized by cooperation and liberalism, rather than zero-sum realist motivations.

In terms of the realist calculations behind China's FTA strategy, there are none more apparent than those relating to China's geo-political aspirations in the Asian region. Its rivalry with Japan and the US, its race to befriend its ASEAN neighbours, its 'One China' policy' regarding Taiwan, and its overall wish to secure a place as the regional leader in Asia, have all influenced China's FTA calculations to one extent or the other. China's push for closer relations with ASEAN had not only the purpose of demonstrating to its neighbours its 'peaceful rise', it was also part of a strategy to counter Japan's growing cooperation with the ASEAN states and to gain the upper hand over Japan in terms of influence in the region. The Sino-Japanese rivalry has and continues to strongly influence both countries pursuits of FTAs. Commentators have even suggested that their differing proposals for regional economic frameworks, as well as their complex structures of bilateral FTAs, have incited a race for realist relative gains that has hampered the development of regional institutions and identity in the Asian region.<sup>194</sup> Although China and Japan are one of

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<sup>194</sup>Corning, "Trade Regionalism in a Realist" 260.

each other's largest trading partners, it is clear that the historical disputes and mistrust between these two countries will continue to hamper cooperative free trade efforts. Even with the proposal for closer economic relations through a trilateral Sino-Japanese-Korean FTA, China and Japan's on-going regional competitiveness will continue to incite realpolitik calculations within their respective FTA strategies for some time to come.

Similarly, the rivalry between China and the US in the Asia-Pacific region, as well as China's aspirations regarding Taiwan and its wish to gain market economy status, have also resulted in realist calculations influencing China's FTA choices. As previously mentioned, the FTA with ASEAN gave China a platform through ASEAN's multilateral forum to question US unilateralism in the Asian area, as well as the chance to build its own influence at the expense of the US. Furthermore, due to the Obama administration's strategic pivot back to the Asia-Pacific, and China's suspicions of US actions developed to 'contain' its rise to power, China has looked to build even closer ties with its neighbours through economic favours and trade agreements. This can be seen most clearly through the proposed Sino-Japanese-Korean FTA, as well as China's development of the RCEP, a regional trade agreement intended to compete with the US led TPP.

China's free trade actions have also been influenced by realist calculations regarding Taiwan. China's FTA with ASEAN helped rebut attempts by Taiwan to establish closer free trade relations with its Southeast Asian neighbours, thus minimizing its chances of gaining further political recognition and autonomy from the mainland. China's rewarding of financial favours and FTAs to states that have supported its 'One China' policy, also shows the extent to which realist geo-political calculations regarding Taiwan have played their part in China's FTA actions. The Sino-Taiwanese FTA, which is being strongly protested by Taiwan's citizens who see it as China's way to gain added influence over their economy and media, shows just how directly China is using FTAs to achieve its Taiwanese related political goals. China has also used other realist political calculations when choosing its FTA partners. None are as striking as those related to the recognition of its market economy status. The fact that New Zealand was the first country in the world to recognize China's market economy status, and the first developed Western state to

sign an FTA with Beijing, is no coincidence. Most of China's partners have not only supported its policies historically, but they have all recognized China's market economy status; a condition that China has skilfully used as a politically realist prerequisite to gaining preferential access to its markets.

In terms of China's mercantilist tendencies, that is, its protection of domestic producers and export sectors through subsidization and state involvement, as well as its international hoarding of reserves as part of a calculated development strategy, China is still guilty of such practices. This form of development is however not entirely new, most of the economically successful states of the East Asian region including Japan, South Korea, Singapore and Taiwan, have been guilty of such practices during their years of explosive economic growth. It can be argued nonetheless that through FTAs China is better able to control which sectors it opens up to competition and which it would prefer to keep protected, allowing it to continue with certain mercantilist tendencies. Moreover, China's undervalued exchange rate is what many regard as a form of modern mercantilism due to its impact as an indirect import tariff and export subsidy. This modern mercantilism is something states have had to learn to deal with over the past decades, a trade off in terms of access to China's vast markets as well as its cheap labour and goods.

Although mercantilism touches certain aspects of China's trade, the extent to which it can be said to have influenced China's free trade strategy is limited, as the very nature of mercantilism goes against what FTAs stand for. The principles of traditional mercantilism that suggest an economic gain for one state results in the loss for another, or that countries are trying to maximize their share of the economic pie at the expense of each other, doesn't apply well to the open, complimentary and interconnected nature of FTAs. Although China is guilty of some modern forms of mercantilism, its pursuit of FTAs has been very liberal in nature. As China has gained experience and become more confident in its FTA strategy it has increasingly opened its domestic market up to more comprehensive agreements that have included much more than simply a reduction of tariffs and the inclusion of goods. It has signed new agreements that include such things as services, investments, and the movement of natural persons, and has begun cooperating in areas where it has traditionally been weak or unwilling to negotiate, such as with intellectual property rights and

environmental protection provisions. Moreover, China has used its FTAs to invite competition from its smaller partners in order to reform and modernise underdeveloped sectors. This was the case with New Zealand and its far superior agricultural sector. The fact that China's FTA partners are so small in size has allowed it to open certain sectors up to competition without the fear of flooding markets with superior products. This has allowed China to break the mercantilist practise of protecting weaker domestic sectors. Ravenhill and Jiang even commit that "in marked contrast to the EU and the United States, whose PTAs (preferential trade agreements) frequently have a mercantilist character, being designed with the intention of opening foreign markets to their exports, the unequal character of the PTAs that Beijing has signed to date has been primarily to the advantage of China's partners."<sup>195</sup> This preferential treatment given to China's partners in terms of concessions and good willed preferential access is therefore something entirely removed from mercantilisms principles regarding trade and economic domination.

Although there are clear realist and mercantilist calculations behind some of China's trade actions, especially regarding its position in the East Asian region and its hoarding of international reserves in order to promote an undervalued currency, overall, China's FTA strategy has been more closely characterized by the ideals of liberalism. Certainly, the realist notions of states as power hungry self-interested actors that are unable to trust each other and fully cooperate due to relative gains and cheating, do not apply to how China has conducted itself on the international free trade scene. China, after all, is the biggest benefactor of the international liberal trade system and has a vested interest in its on-going successful development. It has itself secured enormous growth and prosperity through its international exports and trade liberalizing reforms. One of the larger interests behind China's FTAs is the simple need to secure new markets and natural resources to feed its ever-expanding economy, especially as further trade liberalization through the WTO grinds to a standstill.

With China's willingness to afford its free trade partners with concessions and ultimately agreements that are often in their favour, China has shown just how cooperative and liberal it is determined to be in order to build its free trade

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<sup>195</sup>Ravenhill and Jiang, "China's move to preferential," 31.

partnerships. As one author noted, “China’s willingness to accept agreements that discriminate against its interests is the classical behaviour of a benevolent hegemonic power.”<sup>196</sup> Traditional realist principles involving zero-sum calculations and aggressive power politics are difficult to accord with China’s FTA conduct. It has to date applied a flexible and accommodating approach to its free trade negotiations, often allowing its partners to set the pace in terms of the speed and comprehensiveness of FTAs.<sup>197</sup> China has refrained from using its enormous size to gain leverage over its free trade partners, instead opting to enter into negotiations as an equal. A statement supporting these views was made by Australia’s then Prime Minister Paul Keating in 2011 when he suggested that China’s rise to economic prominence should only be countered if it began to unfairly dominate others, stating that he had yet to see any signs of this happening.<sup>198</sup> In the end, China has not used any aggressive tactics or its overbearing economic power to subdue or unevenly gain from its free trade partners in any realist orientated ways. Instead China has conformed to an FTA process that is open, cooperative, and often more beneficial to its partners, demonstrating the extent to which liberal principles are at work behind China’s search for global free trade partners and the expansion and further liberalization of its economic might.

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<sup>196</sup>Ravenhill and Jiang, “China’s move to preferential,” 32.

<sup>197</sup>Wang, “China’s FTAs: Legal,” 498-500.

<sup>198</sup>Paul Keating, “Paul Keating Welcomes the Rise of China,” Lateline video, 20.52, posted by “ABC News,” November 11, 2011, <http://www.abc.net.au/lateline/content/2011/s3374642.htm>.

## 9. Conclusions

It can be seen that there are a number of important political and economic considerations that have driven China's FTA strategy and its selection of free trade partners since its entry into the domain of bilateral free trade a little over a decade ago. One of the important initial drivers of China's pursuit of FTAs was the lack of agreement within the WTO trade system that saw little progress in the way of increased liberalization, resulting in complete deadlock that has now spanned several years. This disappointing performance within the complicated multilateral consensus process of the WTO led China and other states to search for less complex avenues in order to satisfy their needs for new markets. This has resulted in a new era of popularity towards formulating mostly bilateral FTAs. Furthermore, China's increasing frustration with anti-dumping and anti-subsidy investigations brought against it within the WTO, as well as its problematic alignment with the G20 developing states, became important economic and political motivations behind China's pursuit of an FTA strategy outside of the world trade system. Through bilateral FTAs China could not only avoid these detrimental investigations, it could also pursue its true economic and political interests separate from the policies of the G20 developing states.

Some of the clearest indications of economic and especially political considerations motivating China's FTA strategy are those related to China's aspirations in the Asian region. Since the early 2000s and up to the present day, it is clear that China has looked to stem its neighbours concerns over its growing power by assuring them of its benign intentions as a peacefully rising power. China has used FTAs as an avenue with which to achieve such goals by offering substantial concessions in order to demonstrate its cooperative nature and the fact that it has its neighbour's interests in mind. The 'Early Harvest' programs offered to ASEAN and Pakistan were prime examples of such free trade concessions aimed at fostering more cooperative political and economic relations. Similarly, the favourable terms awarded to Hong Kong and Macau through FTAs were part of a political aspiration to bring these special administrative regions into closer contact with the Chinese mainland. China's pursuit of free trade with ASEAN and other neighbours was therefore largely motivated by its geo-political desire to be perceived as a friendly and cooperative

rising power in the Asian region, giving China not only a better chance to exercise regional leadership, but allowing it to gain ground over one of its largest regional rivals, Japan.

The intense competition for regional influence and leadership between China and Japan has been another clear political calculation behind China's pursuit of FTAs. Chinese analysts pointed to the encirclement of Japan's FTA strategy and its warming relations with ASEAN in the early 2000s as a strong motivation behind China's drive for closer free trade with its neighbours. Certainly, the FTA with ASEAN was not only driven by China's desire to be perceived as cooperative, it was also signed in order to counteract Japan's expanding relationship with the ASEAN states and to place China in a stronger position to compete with Japan for regional influence and leadership. China's competition with the US for influence in the Asia-Pacific region has incited similar political calculations in its trade dealings with ASEAN and other states. China's perception of US intentions to contain its rise, as well as the Obama administration's strategic pivot back to Asia, have seen China seek to counter US influence through greater FTA engagement with countries of the Asia-Pacific region. As previously mentioned, the FTA with ASEAN gave China a stronger foundation for which to counter and question US influence and unilateralism in Asia. Likewise, China's establishment of the regional free trade block the RCEP was a direct response to the US led TPP FTA, and an attempt to build stronger Asia-Pacific regionalism without US involvement. China has even explored the idea of FTAs with South Korea and Japan as a way to improve its economic might and influence in East Asia vis-à-vis the US. Clearly political calculations regarding the US are important motivations behind some of China's largest FTA decisions, and with the US strategic pivot back to the Asia-Pacific region, these US based FTA calculations are set to continue to influence China's free trade strategy for some time to come.

Other important political calculations that have motivated China's FTA strategy are those involving its aspirations regarding Taiwan. China's FTA with ASEAN was certainly informed by the fact that its successful completion would create added difficulty for Taiwan in its attempts to build closer political ties with the ASEAN states. Moreover, the agreement helped stem Taiwan's objectives of further economic and political autonomy from the mainland by way of its own FTA strategy.

China's rewarding of monetary aid and an eventual FTA to Costa Rica shortly after its recognition of Beijing over Taipei, as well as the fact that all of China's current FTA partners have historically supported its 'One China' policy, points further to the fact that China's FTA strategy is strongly influenced by its political aspirations regarding Taiwanese reunification. Furthermore, the Sino-Taiwanese FTA and the highly contentious services clause being added therein, shows just how directly China is using free trade to accomplish its Taiwan related goals through the deepening of economic ties between the two states.

Other political considerations not related directly to the Asian region have also motivated China's FTA strategy and its partner selection. None have been more apparent however than the recognition of its market economy status. One of the prime political considerations motivating China's choice in New Zealand as its first developed Western free trade partner was the fact that it became the first state in the world to accord China with a market economy status. Since this time, China has made it clear that those wishing to conduct in free trade must also first accord China with such a status, attaching a clear political goal to its development of FTAs. Other political considerations motivating China's selection of partners include the political and diplomatic relationship it has historically shared with a prospective partner. Almost all of China's current partners have maintained good political and diplomatic relations with the mainland through support of various Chinese policies. Others such as Costa Rica have however built complimentary relations through political gestures that have won China's favour. It is clear that political considerations regarding how supportive states are of China and its policies are motivating its selection of partners. China has to a large extent rewarded states that have enacted political gestures favourable to the Chinese with FTAs, a strategy that indicates to others that if they too follow a politically cooperative path, they also have the chance to gain from preferential access to China's enormous markets.

It is clear that several economic considerations have also motivated China's FTA strategy and its selection of partners. With the slow pace of negotiations through the WTO and the growing protectionist trade measures put in place by some of China's largest trading partners, China has used FTAs in order to diversify and gain better access to markets in order to continue fuelling its expanding economy. As a

developing country, China needs access to foreign technology, capital, and trade, and with the increased liberalization that FTAs bring about, China is also able to open up its domestic market to stronger competition and important reforms. One of the clearest economic considerations motivating China's selection of FTA partners however has been its search for natural resources. As a country that consumes and imports some of the largest quantities of oil, gas, and minerals in the world, China needs access to vast supplies of natural resources in order to secure its resource and energy needs. China's FTA strategy and selection of partners have therefore been highly influenced by these resource considerations. The abundance of raw materials that many of China's current FTA partners are endowed with gives credence to this fact. Peru, Chile, ASEAN and New Zealand have a large foray of minerals and gas deposits at their disposal, while Iceland produces large quantities of aluminium whilst having advanced geothermal capabilities, and Pakistan acts as an important gateway to South and Central Asian oil routes. Furthermore, the states and organizations China is currently negotiating with including Norway, Australia, and the GCC, are some of the largest oil and mineral producers in the world, pointing to China's increasingly energy orientated FTA strategy.

Another clear economic consideration driving China's FTA strategy is whether or not prospective partners act as FTA hubs. Taking advantage of the aforementioned 'hubbing' effects of states already party to existing FTA networks is clearly an economic benefit that China wishes to take advantage of. Many of its current FTA partners are members of larger FTA regional networks such as MERCOSUR, the Andean Community, EFTA, the EEA, and SAARC. Other partners are members of important bilateral FTAs with states that the China has yet to establish free trade with, including the US, Canada, Japan, and South Korea. By establishing free trade with these FTA 'hubs' China is looking to gain cost effective access to new markets without having to establish new direct bilateral agreements of its own. Whether or not much can be gained through these 'hubbing' effects is still being debated, but clearly this economic incentive is motivating China's choice of free trade partners, a fact the Chinese leadership itself has made no secret of.

A closer inspection of the reasons behind China's FTAs with New Zealand and Iceland were also given in order to better understand the calculations motivating

China's interest in its first two Western free trade partners. Through this inspection it is clear that many of the same calculations regarding political support, China's market economy status, natural resources, and FTA hubs were present in China's dealings with these two states. Politically, both countries have enjoyed good relations with China since the 1970s. They have both supported China's 'One China' policy for over four decades and more recently they have played a pivotal role in affording China with its market economy status. These roles included New Zealand becoming the first country in the world to accord China with such a status, and Iceland being the first developed state in Europe to do so. As mentioned previously natural resources also help explain China's interest in these two Western states. New Zealand is rich in important minerals such as gold and iron ore, and has a fast developing oil industry, whereas Iceland produces large amounts of aluminium and has advanced geothermal capabilities that China can use to enhance its own underdeveloped geothermal sector. Furthermore, the role these two states play as FTA hubs in their respective regions also helps to explain the motivations behind China's interest in them. Iceland is an important FTA hub for China on the European continent as it is both a member of EFTA and the EEA. New Zealand on the other hand is a member of several important FTA agreements and is negotiating many more. New Zealand's FTA with Australia however has been most important to China due to its desire to gain better access to Australia's sizeably larger market and vast supplies of important minerals; a fact evidenced by China's relentless on-going negotiations to sign an FTA with Australia over the past several years.

There were however some clear country specific calculations motivating China's choice in New Zealand and Iceland as free trade partners as well. The choice in New Zealand as its first Western free trade partner makes economic and political sense, as the two countries shared a special political relationship that China had not yet established with other Western states. As mentioned, New Zealand was the first state in the world to accept both China's accession to the WTO and its market economy status, whilst New Zealand became the first Western country in the world to be put on China's list of 'Approved Destination Status.' Moreover, New Zealand has for decades been a hugely popular destination for Chinese students and businessmen, bringing to light not only China's acceptance of New Zealand's society and education system, but also the complimentary cultural relationship the two states have long

shared. This fact, combined with New Zealand's non-threatening and small economy, made it the perfect place for China to test its Western free trade strategy. More specific considerations and explanations can be provided for China's FTA with Iceland as well. Although it too was a small and non-threatening option for China to test its FTA strategy on the European continent, other considerations relating to China's 'side door' approach to Europe as well as its interest in the Arctic region were stronger political and economic considerations motivating its trade with Iceland. Through its lack of trade progress with the EU and the large financial benefits that could be made through the Arctic's untapped resources and shipping routes, China saw an opportunity in Iceland to take better advantage of both these situations. Through an FTA with Iceland China has not only been in a better position to influence developments in the Arctic region through closer association with a prominent member of the Arctic Council, it has also placed itself in a better position to bypass frosty relations with the EU by using the integrated nature of Iceland's economy as a side door approach to economic diplomacy on the European continent.

As can be seen, there are a large number of political and economic calculations that have motivated China's selection of partners as well as its overall FTA strategy since it began its free trade quest in the early 2000s. This thesis has looked to shed light on these calculations in order to better explain what has motivated the largest trading state in the world to pursue an ever-expanding global strategy of free trade relationships. By assessing these calculations a better understanding can not only be grasped of how China has expanded onto the free trade scene thus far, but also the motivations that are likely to continue to shape its FTA strategy into the future. The examination of China's trade has included old, new and currently negotiated FTAs in order to provide an up to date analysis of a topic still in its infancy and thus far under researched. Through a closer examination of the FTAs China has established with its first two Western free trade partners, New Zealand and Iceland, this thesis has also looked to paint a clearer picture as to the motivations driving China's initial leap into free trade with the West. Through this examination of China's FTA strategy, confusion and/or misunderstanding regarding its free trade intentions can be brought to a minimum. From a diplomatic point of view this provides for a clearer foundation with which to tackle international trade and economic relations with soon to be the world's largest economic power.

Although this thesis has provided a thorough description of the political and economic considerations motivating China's FTA strategy, this description has been mostly general in nature. By conducting such a generalised research project there are inherently limitations to what can be achieved. One such limitation is the lack of specificity regarding many of the FTAs covered. A larger and more thorough research scope would benefit from assessing each individual agreement more comprehensively, providing a better understanding of the specific goods, services, investment, and other clauses that have characterized each agreement. Although the more general understanding of the political and economic motivations behind China's FTA strategy is necessary in order to gain an important overview, this more specified approach could provide a fuller and more comprehensive understanding of China's economic goals. It could not only determine what sectors China is looking to gain better access to and for what reasons, but also which sectors China has been willing or reluctant to open up to its partners and the logic behind such calculations. A follow up research project could therefore provide a new angle as to the motivations behind China's FTA strategy, adding to the general analysis undertaken here with more specific case-by-case investigations.

In the end it is clear that China's expansion onto the global free trade scene has been marked by calculations that are in no way out of the ordinary or cause for concern. Although China has no concrete FTA strategy, preferring to instead conduct agreements on a case-by-case basis, it has looked to secure its political and economic objectives through FTAs in much the same way as other states have. Economic, political, and even realist calculations are present in the decision making of all states' free trade dealings and China has simply followed the resurgence in competitive free trade that has consistently grown since the early 2000s. The more general characteristics of China's FTA strategy even point to the fact that China is to some extent cautious and apprehensive with its free trade endeavours. It prefers to enter into agreements only with small and credit worthy economies and increases the depth and comprehensiveness of its agreements only as it gains additional experience. Although realist calculations characterise some of China's free trade motivations, especially regarding the Asian region, and Chinese mercantilist tendencies are still at play, mostly related to its undervalued currency, China's overall FTA strategy has been one characterized by cooperative and liberal actions. The concessions and often

unbalanced trade agreements that have favoured China's partners, combined with China's accommodating negotiation style and its treatment of partners as equals despite vast differences in economic size, point to the cooperative and liberal way in which China is rising onto the international free trade scene. How China will continue to conduct its FTA strategy as its economic might and global power continues to expand is of course yet to be seen. Judging by its current political and economic motivations, as well as its accommodating and liberal style of conducting trade with partners, it looks as though China's intentions are inherently peaceful and that it will continue to build an international structure of FTAs that will be both beneficial to itself and to its partners for many years to come.

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